



Wealth Planning Report

Testing Your Wealth Planning for Stressful Times

When making critical planning decisions, knowing steps that extremely affluent families often take to protect and securely grow their wealth may also apply to you.

Consider the technique of “stress testing,” for example. Stress testing is a process that carefully examines the wealth strategies you already have in place to assess how well or the likelihood that they’ll deliver the results you expected in a range of different environments.

The ultra-affluent (those with a net worth of \$500 million or more) have stress testing conducted often because such tests enable them to do better planning. Testing shows them both how likely they will get what they want and whether they have the right professionals. Stress testing is also effective at identifying potentially big problems—or unknown costly huge mistakes—so changes can be made proactively and thoughtfully.

The good news: not only do the very wealthy benefit from stress testing their situations. In fact, most successful and affluent people can significantly benefit from testing when vetting financial plans, products and services. In addition to identifying potential missteps in an existing plan or solution, it may be able to deliver you more confidence and peace of mind when the test confirms that, indeed, your plan is working and on track.

How stress testing works

Stress testing frequently follows a defined process involving four steps similar to these:

1. Profiling. The process starts with an extended discovery conversation. What are your specific goals, values, and concerns? What problems are of most concern to you? What opportunities are you seeking to benefit from? Who are the people or organizations you most want to benefit?

2. Solution evaluation. Once there is greater clarity about your goals, objectives, concerns, preferences, and limitations, various strategies or solutions can be considered or those you have re-assessed. There are numerous ways to examine and evaluate alternatives, including:

- **Working the assumptions.** A model is designed and then assumptions underlying that design of strategies or solutions are systematically modified to determine how well they are likely to impact results as the “what ifs” of various scenarios are changed.
- **Evaluating alignment with goals and objectives.** It’s essential to determine how likely the strategies or solutions you have or are proposed are able to accomplish your goals and objectives. A commonly used solution may not deliver the specific results you want or need in your particular situation, because of its uniqueness in some way.

3. Analytic comparisons. After the initial evaluations, alternative solutions could be proposed. Conducting analytic side-by-side comparisons where practical may be valuable.

4. Recommendations. At the conclusion of the stress testing process, the most likely recommendations are presented and evaluated—and the course of action is decided.

STRESS TESTING TRENDS AMONG PROFESSIONALS

Because of the decision-making power of stress testing, more leading professionals are increasingly making it a cornerstone of planning and collaborating with individuals and families.

Consider that a sizable majority—76.8 percent—of 181 senior executives at multifamily offices serving wealthy families call stress tests an “important deliverable” for their clients.

We most often see stress tests used in wealth planning, such as for investment management, life insurance and advanced tax planning all before getting increased degrees of attention.

In our view, all too often stress testing is limited to evaluating only investment portfolios. For example, while only 40 percent of family office executives stress tested clients’ life insurance, a full 64.4 percent of those that testing uncovered serious implementation problems requiring corrective actions.

This doesn’t surprise us. Affluent families considering the purchase of life insurance solutions frequently have multiple

estate tax concerns to address. Sometimes, life insurance is obtained to create a larger tax free estate at an earlier time or to make a charitable gift at death. Other times, the intent is to benefit from the tax-free internal buildup within maximum funded policies. But it's common that some affluent families end up with amounts of life insurance that exceed their needs. Alternatively, their life insurance financing may be poorly structured. When life insurance strategies are not in sync with wealth planning, trouble can occur down the road.

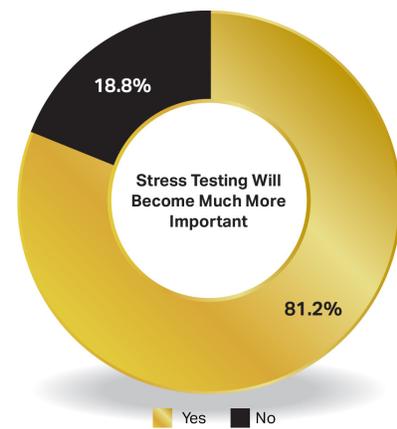
This illustrates how widely stress tests may be applied.

Growing in importance

It's reasonable to expect stress testing to garner more interest and attention among successful clients and their professional advisors, as evidenced by the fact that more than 80 percent of family office executives said these tests will become more important going forward (see chart).

Stress Testing is Essential for Successful Planning Outcomes

Consider one way that stress testing can add value: evaluating income tax mitigation strategies. Today, there are a number of ways to lower corporate and personal incomes (and thereby pay less in taxes). Tax rates going forward are likely to be much higher, not lower. And tax minimization strategies available today may not be available in the future. Affluent and not-so-affluent families may look to stress test their strategies in order to ensure they are not running afoul of Federal and state revenue services with the approaches they have—or thought they had.



N = 181 multifamily office senior executives.
Source: Family Office Association, 2018.

More access

Stress testing, once a feature available mainly for a select group of the very wealthy, is increasingly being offered to a broader range of affluent and aspiring individuals and families. As a result, you may have an opportunity to put your financial, tax and legal strategies through their paces and determine if they're set up to deliver the planning results you want before anything happens—or to find out if there are new ways to do better.

Next step: Reach out to your trusted financial and/or legal professionals to see if a stress test for you or your business could be a good idea.

Disclosure: Tax laws are subject to change, affecting how a strategy may perform. Always consult with a competent and knowledgeable tax advisor.

This is an executive summary of our wealth management ebook.
For a complimentary copy of our complete report, please contact us.



Paul Byron Hill, MBA, MFP, MSFS, ChFC®, RICP®, CFP® is a nationally recognized Wealth Management Certified Professional™ and Certified Financial Planner™ Professional, written about in *Fortune*, *Forbes*, *Bloomberg Businessweek*, and *Money*. As co-author of *Retire Abundantly*, Paul was interviewed by James Malinchak, of ABC-TV's hit series, *Secret Millionaire*, and by Dimensional Fund Advisors for their "Value of an Advisor" series. Reuters AdvisePoint has recognized Mr. Hill as one of 500 "Top Advisers" and prominently featured him on their website.

Paul founded Professional Financial Strategies, Inc. as one of the first fiduciary advisory firms in 1993 that now specializes in retirement and wealth planning for affluent and aspiring families. Paul is a personal chief financial officer who acts in the best interest of clients. He brings together a distinctive management process and a network of specialists for making informed decisions for scientifically-structured investing, secure income, mitigating taxes, protecting assets, and preserving wealth for family and causes that make an enduring impact.

Mr. Hill received a BA with distinction from the University of Rochester and later an MBA in finance from its Simon School of Business. He earned an MS in financial services from The American College along with his Chartered Financial Consultant and Retirement Income Certified Professional designations, and then received an MS in financial planning from the College for Financial Planning (now at the University of Phoenix). The College for Financial Planning appointed him as adjunct faculty, and he has taught at St. John Fisher College. Who's Who presented Paul with the Albert Nelson Marquis Lifetime Achievement Award in 2018 and featured him with other recipients in *The Wall Street Journal*.

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