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New year invites fresh look at client financial plans

By Gary S. Mogel
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NEW YORK - Advisers are tuning up client financial plans as the new year gets under way, with re-balancing client investment portfolios to account for 2004's investment results as a priority.

"Clients who want to maintain a certain asset allocation between stocks and bonds are now probably overweighted in stocks, because the stock market went up, while bonds were relatively flat," said Curt Fey, a financial planner in Pittsford, N.Y., with $20 million in assets under management.

Paul Winter, principal of Five Seasons Financial Planning in Holladay, Utah, said that 2004's favorable returns in historically volatile assets classes such as domestic and international small- and micro-cap equities, real estate investment trusts and emerging-markets bonds, in relation to large-cap stocks, may have resulted in a significant departure from target allocations.

"To the extent that asset reallocations create taxable capital gains, by acting early, clients have the rest of 2005 to offset them by harvesting tax losses," he said.

Contribute early

Regarding financial plan components requiring a monetary contribution from the client, Sameer Shah, managing director of Shah & Associates in New York, recommends to clients that they contribute as early in the year as possible.

"For example, clients wanting to make the $11,000 maximum tax-free gift to their children should do that in January so any investment gains for the year go to the children, are taxed under the children's tax bracket and are out of the parents' estate," he said.

For retirement plans, including an individual retirement account, Roth IRA and 401(k), Mr. Shah advises clients to contribute as soon as possible after Jan. 1 so the investment can earn income throughout the year.

He recommends to clients that they call their employer's benefits department and request that more money be taken out of their first few paychecks of the year and placed in their 401(k), if possible.

Statutory maximum retirement plan contributions increased - usually by $1,000 for each type of plan - as of the first of the year. Anthony Domino, principal of Associated Benefit Consultants LLC in White Plains, N.Y., and president of the Society of Financial Service Professionals in Bryn Mawr, Pa., noted that the 401(k) and 403(b) maximums increased to $14,000, from $13,000, and the catch-up provisions for employees over age 50 went to $4,000, from $3,000.

As for deferred-compensation and stock options, he said that because so many changes went into effect Jan. 1, he is revisiting every aspect of these plans to make certain that the businesses paying the compensation and options - as well as the employees receiving them - are in compliance.

Herb Katzeff, a personal financial representative with Northbrook, Ill.-based Allstate Insurance Co., advises clients to start contributing to Section 529 education savings accounts in January to make certain the maximum deductible contribution is reached before the year runs out. New York, where Mr. Katzeff is based, has a $10,000 annual limit for deductible contributions.

"If the client can afford to contribute a maximum of about $800 a month, they may not be able to reach the $10,000 before the year runs out if they don't start early," he said.

Review plans

At the start of the new year, the advisers review client goals and the clients' investment policy statements, and make planning revisions based on life changes - such as new jobs, births, adoptions and newly diagnosed medical conditions - that may have occurred during 2004 but weren't reported to them until now.

Also, documents such as wills, powers of attorney, health-care proxies, living wills and insurance policies are updated to account for new circumstances, different beneficiaries and other changes.

You can't just buy a product anymore, or develop a plan, and simply put it on the shelf, Mr. Domino said.

Dave Moran, senior vice president of Coral Gables, Fla.-based Evensky & Katz Wealth Management, which has $450 million under management, is advising clients on the new sales tax deduction.

This is the first year of the federal American Jobs Creation Act, passed in October, under which taxpayers can choose to deduct either their state and local income taxes or their state and local sales taxes, subject to Internal Revenue Service limitations.

"I am telling clients to hold on to their 2005 sales receipts so at the end of the year, they can see what was spent on sales tax, and can make decisions relating to this deduction," Mr. Moran said.