TAXES & FINANCE
Some sweeteners have been added to tax breaks. / G8

ESTATE PLANNING
Death and taxes: The return of the estate tax / G5

PERSONAL FINANCES
Tax credit or tax deduction: What's the diference? / G14

financial planning

Sunday, Feb. 27, 2011 ■ Section G

Estate Planning and tax guide sponsored by the Eastern Idaho Estate Planning Council

How much is enough?

Advice from local experts on when to call it quits

The longer you live, the more you'll need – and the longer you'll have to work before retirement

By Paul Menser
For Estate Planning

If we had to boil the essentials of estate planning down to one sentence, it might be this: The longer you live, the more money you are going to spend.

And it's a fact that people are living longer, said Ken Simpson of Idaho Falls, adviser with Desert Wealth Management Inc. and a member of the Eastern Idaho Estate Planning Council.

"Lots of people say, 'I'll never live that long,' but if you've got a couple who are 65, there's a 50 percent chance that one of them is going to live until 92 and a 25 percent chance one of them will be living to age 97," he said.

In other words, a person who wants a traditional retirement at age 65 could be looking at 30 years on a fixed income, with a pool of assets that is going to be eroded by inflation. A person who wants to start drawing Social Security at age 62 is going to have to have even more assets from which to draw.

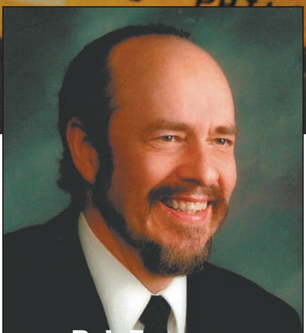
"In your working years, you've got a built-in hedge in that your salary is going up," Simpson said. "The challenge of retirement is that you have to replace that income stream with something that factors inflation."

If inflation stays at an average of 3 percent over 30 years, it would cost $250,000 to buy at age 92 what cost $100,000 at age 62.

It's essential to have a plan.

While the first step is calculating the cost of living over the long term, the second is determining where the income is com-

See **How much?** Page **G2**


Rob Farnam:

"The benefits are going to change, but Social Security's ills are going to be fixed."


Ken Simpson:

"The challenge of retirement is that you have to replace that income stream with something that factors inflation."


Greg Calder:

"There are so many moving variables right now. The key driver is flexibility."

ESTATE PLANNING

Potential potholes for family-owned businesses

By Ryan Meikle
Vice president, Eastern Idaho Estate Planning Council

During this time of year, it can be a challenge to not hit a pothole as you drive around town.

On a recent Saturday afternoon, as I was working my way down a pothole-riddled street, I recalled a speech I heard several years ago about road conditions. A man asked the owner of a road-paving company located in western Canada what allowed the roads in that part of the country to withstand the extreme variations in temperature. The response to the question – "As the cold of winter and the heat of summer come and go, it is the depth of the road base that lets the material expand and contract without cracking or damaging the driving surface."

Family business owners frequently struggle with the challenges of transitioning their business to the next generation. It is estimated that less than one-third of family businesses successfully transition to the second generation and nearly ninety percent of family businesses never make it to the third generation.

Similar to a road, I believe that as the challenges of transitioning a family business come and go, it is the depth of planning that lets the business transition to a succeeding generation without cracking or damaging the business (and more importantly, the family).

According to the Laird Norton Tyee Northwest Family Business Survey 2008 (www.familybusinesssurvey.com), only

See **POTHOLES,** Page **G15**

■ DAN MCPHERSON

Dollars, gold and the threat of inflation

Many of the people here in eastern Idaho that we meet on a daily basis have asked the same question over and over to me.

The question usually goes something like this: “I sure am concerned about the way the government is using these quantitative easing programs and printing money. I am afraid we will have runaway inflation and the value of the dollar will collapse, should I buy some gold?”

It is a great question, and one that many people have. It is further fueled by the advertisements they hear on the radio and TV.

Let’s start by talking about what Quantitative Easing is. Quantitative easing is an unconventional monetary policy used by some central banks to stimulate their economy. The central bank creates money which it uses to buy government bonds or other financial assets to increase the money supply. This is what leads to the fears about inflation, the fact that there is more money in circulation so the value of each dollar goes down.

Some of our local residents have mentioned that they haven’t seen inflation that is “as bad” as they would expect, considering how much money has been printed. To understand why inflation at the levels one would expect hasn’t occurred, you have to understand the money system. Let’s compare our economy to a small isolated village. There is $100 in circulation in the village and the villagers are using it to buy chickens, pigs, cocoa beans and other goods. There isn’t any inflation at this point. Now let’s say that one villager has $1,000,000 in his hut hidden away. This villager doesn’t spend the money so it isn’t in circulation. That means that there is still only $100 in circulation so still no inflation. Now once that villager pulls his $1,000,000 out and goes and spends it you have a different story. Inflation runs rampant because now there is $1,000,100 in circulation. So it isn’t just the amount of money in the economy, it is also the speed at which the money is being spent. The formula for the effect of money on the economy is

(Total Amount of Currency) X (Velocity).

Note that the amount of money is a constant, but the velocity is squared. That means that the speed

There are many ways to deal with inflation in your personal finances, but the first step lies in understanding the bigger problem.

at which the money is moving through the economy is more important than the actual amount of money in the economy.

Right now businesses are building their cash reserves and not spending. Banks are not lending as much as they used to and residents of southeastern Idaho are putting money into savings or paying debt down as opposed to spending. This is one of the reasons that even though we have had massive stimulus packages, we haven’t seen inflation at the levels one would believe we would have as a result of these packages.

There are many ways to deal with inflation in your personal finances, but the first step lies in understanding the bigger problem. As one Idaho Falls resident recently told me, “I can’t control the government, but if I can understand what the effects of their decisions are on me, I can at least make the best plans possible for dealing with those effects.”

Dan McPherson is a member, FINRA and SIPC and is a certified financial planner with Strategic Wealth Concepts, 1488 Midway Avenue, Idaho Falls, ID 83406 Phone: (208) 528-7922; Fax (208) 528-0053. Securities offered through Pacific West Securities, Inc.

POTHOLES

From Page F1

a quarter of family businesses in the U.S. have given serious thought to succession planning, and half of all senior-generation family business owners have no written estate plan. It’s no wonder that most family businesses crack and are damaged under the extreme pressures that arise during the transition of the business.

Dave Specht, a nationally recognized family business consultant and Lecturer at the University of Nebraska, recommends that a successful succession plan be based on the “three C’s”: communication, contingency plans, and cash flow. First, communication is essential. Communication from the senior generation to the younger generation (and vice versa) about the expectations for the business as well as each generation’s expectations is key for the long-term success of the business and family relationships. Second, contingency plans are necessary to prepare for unexpected events. Every family business is destined to experience unforeseen challenges that should be addressed through a contingency plan, which should address both management and ownership related issues.

Understanding cash flow, the third “C”, is also important because it

... There are no second chances when it comes to transitioning a family business to the next generation.

determines where all the money is going and how the business will fulfill the cash flow needs of the senior generation during retirement. Each of the “three C’s” will add depth to a family business transition plan and will increase the likelihood that the family business will survive the transition through multiple generations.

Unlike potholes in a road, which can be repaired each year, there are no second chances when it comes to transitioning a family business to the next generation. If you own a family business, now is the time to increase the depth of your transition plan to ensure that neither the business nor your family will crack or be damaged when the inevitable transition of your business occurs.

Ryan B. Meikle is an attorney at Holden, Kidwell, Hahn & Crapo, P.L.L.C., where his practice focuses primarily on estate planning and business related issues. He can be reached at (208) 523-0620.