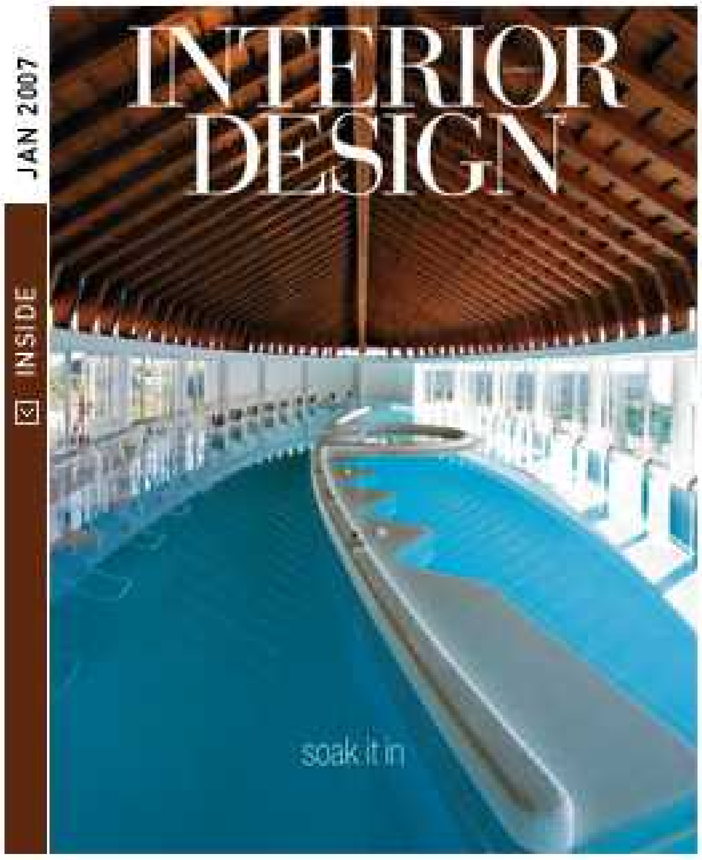

Designwire

New Year, New Goals
Bennett Group Financial Services CEO Dawn Bennett reminds design professionals on where their financial priorities should be. Read her advice in Designwire.

Newswire

RugMark Hits 11-Year Millstone FEB 05, 2007
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On the Move FEB 02, 2007
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New Year, New Goals

Bennett Group Financial Services CEO Dawn Bennett advises design professionals on where their financial priorities should be.
Dawn Bennett
Interior Design -- 1/30/2007 8:38:00 AM

How does a successful interior designer find a secure financial future in today's changing economy? No doubt most of your attention is paid to building up your business and bringing projects in on time rather than worrying about retirement in the distant future. But building a successful business does not necessarily ensure your future financial health.

What amount of time have you spent in the past year, developing effective tax strategies, choosing a retirement plan for yourself and your employees, refining the employee benefits program so it maximizes your ability to attract and retain top talent, and creating a business succession plan that takes into account all of the critical factors associated with transitioning the business in retirement? It was likely minimal, as the day-to-day demands of your business are, obviously, far higher on your list of priorities. But as a business owner, these issues ought to be top-shelf items for you. Let's look at just one of these issues in depth: retirement planning.

Interior designers in closely held businesses are often unaware of the shortcomings of their retirement programs. In most industries, building a business means you have something to sell after it gets to a certain size or notoriety. The money from the sale, typically, is in a lump sum payment and that allows one the opportunity to fund their retirement nest egg very quickly. But, because many of the interior design businesses are not sold the way one typically thinks about selling a business, the "lump sum" option of funding your retirement should not be a safety net. Most designers maintain a two to three person firm that, if lucky, finds a junior partner to eventually take over the business. S/he has been paying for the ownership of the firm along the way via sweat equity and a little here and there from their paychecks. So, unless the head designer had the discipline to take the junior partner's monthly payment and stash it away for a later day, he may just have memories of a great but very expensive vacation or too many cars in the driveway.

Another element that stops designers from consistently putting money away is that many times the level of revenue is directly tracking the economy. These business owners are placing a bet that the U.S. and world economy will remain the same year in and year out. But life today consists of many geopolitical and economic uncertainties which will make the world a very different place from when our parents and grandparents retired. In addition, you probably won't be content to sit in a rocking chair on your front porch when you retire. Today's retirees are active and have more lifestyle choices than previous generations, and these choices cost money.

Designers just starting out need to realize early in their careers that there are competing demands for the money they earn. How does a young designer save for a down payment on a home, set aside money for retirement, begin a savings and investment program, and think about marriage and a family? While it's not easy, it's not impossible. In my experience with our talented interior design clients, I find that getting them started on saving money is similar to the way they themselves approach redesigning a room. It involves listening to their dreams, desires, and goals, looking at what they have now, deciding what needs to be maintained and what needs to be thrown away, and then designing an investment blueprint that allows them to achieve their goals realistically.

Here are some common money management mistakes that typically begin when designers are just getting started:

- Failure to develop a financial plan for today and tomorrow

- Failure to instill the discipline required to reach a financial goal

- Failure to diversify the investment portfolio or invest for the long term

- Failure to fully participate at the maximum level in all retirement programs that are available through a deferred compensation plan or the government

For illustration purposes, let's follow the career of a hypothetical young designer as she matures into a seasoned business owner. Assume she's 22, single, and earns $45,000 annually before taxes and $28,373 after taxes. She is in a 35 percent tax bracket and has a monthly after-tax income of $2,364. During her first year in business, she makes a goal to save 10 percent for investment purposes. She wants to buy a home and simultaneously plan for later years by having 3 percent taken out for a retirement fund. She rents a small apartment, which she shares with another working professional, and leases a compact car that gets excellent mileage.

The Before monthly budget illustrates her ambitious and long-term goals, but it is constrained and a little unrealistic to maintain. The designer is short on cash, long on expenses (with a deficit of almost $800 per month), and falls into the snare that many people, not just designers, fall into: She borrows from Peter to pay Paul using credit cards and cash advances to do it. Should she continue on with increased credit card debt, or anticipate that a slight monthly pay increase might help reduce some expenses? The first priority must be to resist the siren call of credit cards. If credit card debt gets out of control, it can easily wreck one's financial health. Credit card companies demand interest rates from 21.99% to 24.99%. (Loan sharks are kinder!).

Here's the reality: By making the minimum monthly payment of $150 on a $5,000 debt, it will take almost 12 years to erase the original debt. Total interest paid will be $3,758.00. If the goal is to pay the debt off in two years, payments need to be increased to $242 per month, and the total interest paid will fall to $801. By eliminating debt, the designer moves almost $3,000 closer to her dream. Since she is action-oriented and determined, she decides to rid herself of this debt nightmare in two years by making temporary adjustments and realigning priorities. Wisely, she does not reduce the amount contributed to her retirement fund, which helps lower her marginal rate of taxation. In fact, look at Chart A to see the effect of saving $5,000 every year for 30 years earning 10 percent in your retirement plan. You would have an additional $899,477!

When she marries several years later, she and her spouse vow to remain out of credit card prison. Both recognize the value of the lessons learned from their "singles" past and seek to be good stewards of their income. By carefully managing and investing their money in a diversified portfolio, the couple contributes the maximum to their retirement plans and after-tax IRAs. For example, a professionally managed portfolio may be allocated between at least 10 asset classes and have returns that out-perform their benchmarks (see Chart B, and pie charts 4, 5, and 6 for model portfolio returns and asset allocation). In addition, they have enough resources to set up monthly contributions to 529 plans for their children's educational future.

By the time the children finish college, the designer begins to think about retirement and how to protect and pass her business on to her children. But all too often, the financial planning pattern followed by many closely held business owners looks like a road map to nowhere. Why? For years, they have tried to address the areas of tax planning, estate planning, and business succession planning on their own. What's wrong with a do-it-yourself tax planning program? The answer is everything and nothing. Nothing, if you want to see the IRS take over half of everything you own for taxes. Everything, if you want what you have worked so hard for over the years to be passed on to your family. This is not the time to self-diagnose and self-prescribe. This is really the time to ask, "What is important to us? Where did mistakes occur? How can those be addressed and fixed?" Usually these questions are easily answered by identifying a few manageable and important goals:

- Maintaining a comfortable lifestyle during retirement

- Running your business until death or impairment prevents it

- Transferring wealth to children and grandchildren

- Protecting your assets from the IRS and erosion by estate taxes

This is not the time for a simple will and trust, or "everything goes to my spouse" attitude. For the next generation, it is also a time to address the hard "what if" questions of divorce, child custody, and premature death or disability. See Chart C for the breakdown of people who are in need of long-term care—40 percent are working-age adults between age 18 and 64. None of these goals can be accomplished in a vacuum but should be addressed by a competent, knowledgeable wealth management team with expertise in accounting, investments, tax, and estate planning.

Not to be missed in this planning effort is an early decision to recognize the value of long-term care insurance and make it a priority. By purchasing long-term care policies early in life, you'll be able to secure lower premiums and rest in the knowledge that your investments and the business will not have to be liquidated in the event of major medical needs. Plus, more people are living longer.

What the designer and spouse did is not rocket science, but it is smart. They simply made a decision not to live beyond their means, to pay themselves first, to differentiate between wants and needs, and to delay gratification and adopt a disciplined and consistent savings approach. It became a normal way of life for them.

About the author
Dawn J. Bennett is the founder and chief executive officer of Bennett Group Financial Services, a leading Washington, D.C.–based provider of comprehensive wealth management services. Ms. Bennett has appeared on Bloomberg television, Forbes on Fox, Cavuto on Business, Business News Network, CNN/fn, National Public Radio, and WRC radio, and also served as a source for Investors Business Daily, Kiplinger Personal Finance, Fortune, Money, the New York Times, BusinessWeek, and Ladies' Home Journal. With over 20 years of experience in investment advisory and wealth management services, Ms. Bennett is completing a guide to personal finance, slated for publication in 2007.

Before

Occupation	Interior Designer
Personality Type	Focused and creative
Marital Status	Single Self-Employed
Tax Bracket	40.00%
Age	38
Income	$125,000.00
SEP IRA contribution 25.00%	$31,250.00
After Tax Annual Income	$56,250.00
After Tax Monthly Income	$4,688.00

Monthly Expense Budget

	Expense	Budget Per Month
Home		$2,170.00
	Mortgage-Home	$2,000.00
	Home insurance (included)	Included
	Real estate taxes (included)	Included
	Maintenance/Condo Fee	$170.00
	Home Repairs	Included
	Lawn Care	Included
	Trash	Included
Gifting	Tithing/Charitable Giving	$235.00
Food		$550.00
	Groceries	$200.00
	Work/Lunch	$100.00
	Entertaining/dinning out and ordering in	$250.00
Insurance	Insurance (Life,Health and Disability Insurance)	$250.00
Utilities		$395.00
	Phone - Cell	$100.00
	Phone - Home	$50.00
	Gas	$0.00
	Electric	$150.00
	Water	$15.00
	Cable	$80.00
Basic Expenses		$440.00
	Dry Cleaning	$50.00
	Medical and Dental	$100.00
	Newspaper	$15.00
	Grooming	$75.00
	Clothing	$200.00
Credit Card	Balance of $10,000.00 @12.99%	$300.00
	Will take 15 YEARS to pay off with total interest paid of $5,200.00 and $10,000 principal	
Transportation		$690.00
	Car payments/Lease	$250.00
	Maintenance and Repairs	$50.00
	Gas	$240.00
	Insurance	$150.00
Investment		$705.00
	Saving for future goals-Emergencies	$235.00
	Savings for Long-Term Goals	$235.00
	Saving for Short-Term Goals	$235.00
Miscellaneous		$525.00
	Alcoholic Beverages	$25.00
	Books and Magazines	$75.00
	Health Club	$50.00
	Dues	$100.00
	Gifts and Cards	$25.00
	Professional fees and Licenses	$100.00
	Vacations	$100.00
	Movies, plays etc	$50.00

AFTER

Occupation	Interior Designer
Personality Type	Focused, creative and financially disciplined
Marital Status	Single Self-Employed
Tax Bracket	
Age	38
Income	$125,000.00
SEP IRA contribution 25.00%	$31,250.00
After Tax Annual Income	$56,250.00
After Tax Monthly Income	$4,688.00

Monthly Expense Budget

	Expense		Budget Per Month
Home			$2,170.00
	Mortgage-Home		$2,000.00
	Home insurance (included)		Included
	Real estate taxes (included)		Included
	Maintenance/Condo Fee		$170.00
	Home Repairs		Included
	Lawn Care		Included
	Trash		Included
Gifting	Tithing/Charitable Giving		$0.00
Food			$500.00
	Groceries	$250.00	
	Work/Lunch	$0.00	
	Entertaining/dinning out and ordering in	$250.00	
Insurance	Insurance (Life,Health and Disability Insurance)		$250.00
Utilities			$295.00
	Phone - Cell	$50.00	
	Phone - Home	$50.00	
	Gas	$0.00	
	Electric	$100.00	
	Water	$15.00	
	Cable	$80.00	
Basic Expenses			$200.00
	Dry Cleaning	$25.00	
	Medical and Dental	$25.00	
	Newspaper	$0.00	
	Grooming	$50.00	
	Clothing	$100.00	
Credit Card	Balance of $10,000.00 @12.99%		$470.00
	Will take 12 YEARS to pay off with total interest paid of $1,287 and $10,000 principal		
Transportation			$665.00
	Car payments/Lease	$250.00	
	Maintenance and Repairs	$25.00	
	Gas	$240.00	
	Insurance	$150.00	
Investment			$235.00
	Saving for future goals-Emergencies	$235.00	
	Savings for Long-Term Goals	$0.00 until debt is paid	
	Saving for Short-Term Goals	$0.00 until debt is paid	
Miscellaneous			$246.00
	Alcoholic Beverages	$0.00	
	Books and Magazines	$0.00	
	Health Club	$50.00	
	Dues	$100.00	
	Gifts and Cards	$0.00	
	Professional fees and Licenses	$50.00	
	Vacations	$0.00	

If you had invested on 1/1/1997 in our proposed portfolio (72% Stocks & 28% Fixed Income):	$200,000.00
As of 12/31/2006, your portfolio would be worth:	$645,147.42
	VS
The S&P 500 (100% Equities):	$448,884.76

Chart B

As of 12/31/06	BGFS 10 Money Managers	S&P 500 Index
1 Year **	16.05%	15.79%
3 Year	13.43%	10.44%
5 Year	12.54%	6.19%
10 Year	12.43%	8.42%

**2006 we rebalanced to equal weightings in each fund

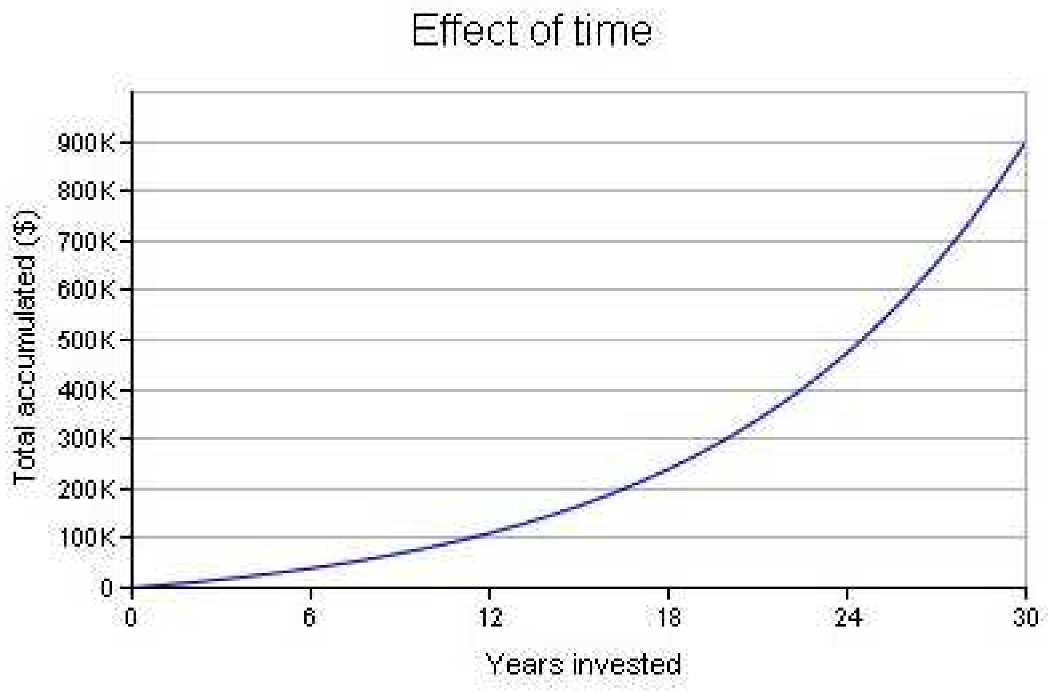
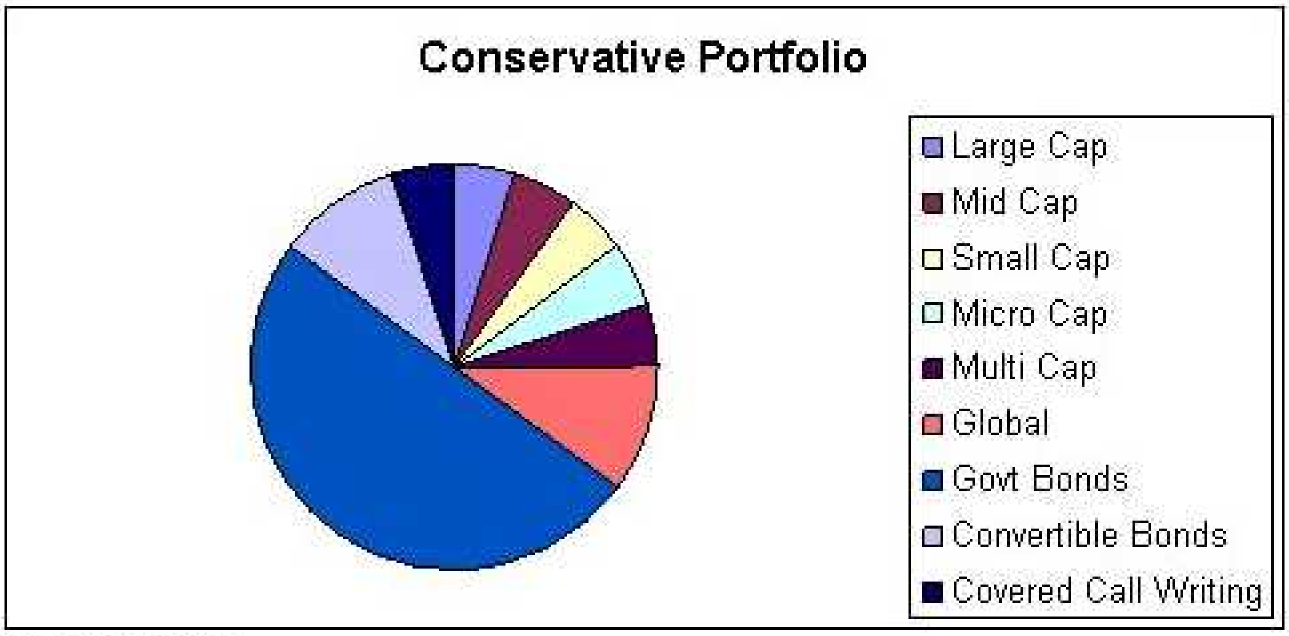
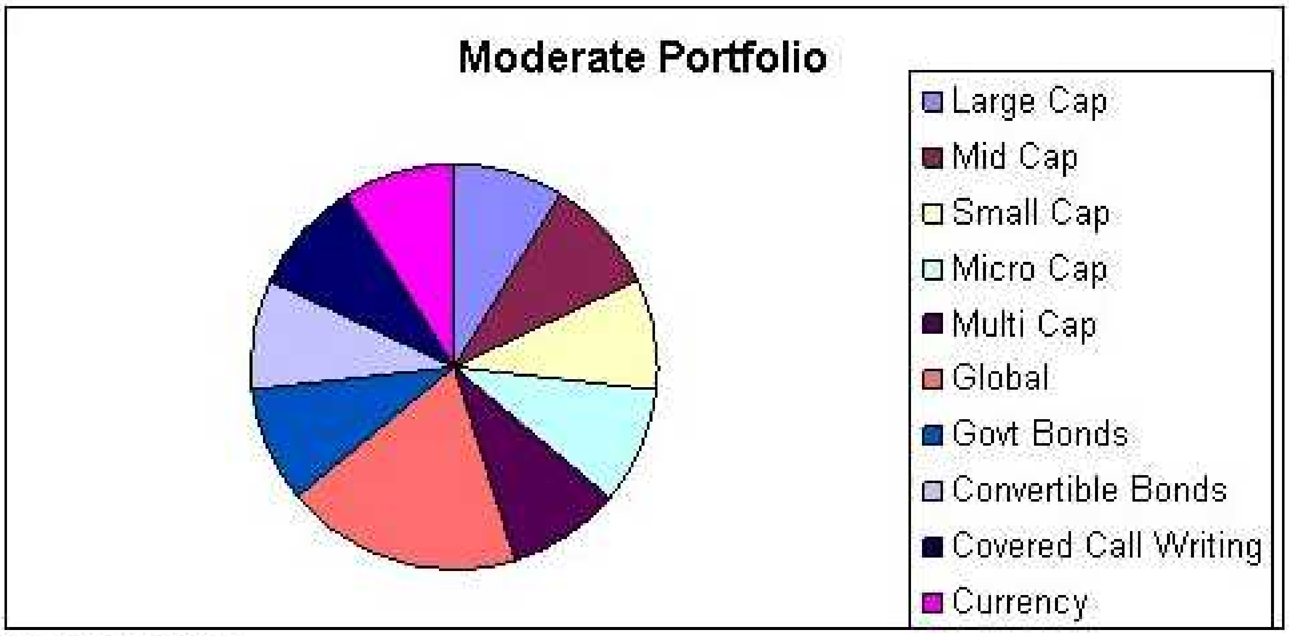


Chart A
the effect of saving $5,000 every year for 30 years earning 10 percent in your retirement plan.



INTERIOR DESIGN

Conservative Portfolio



Moderate Portfolio

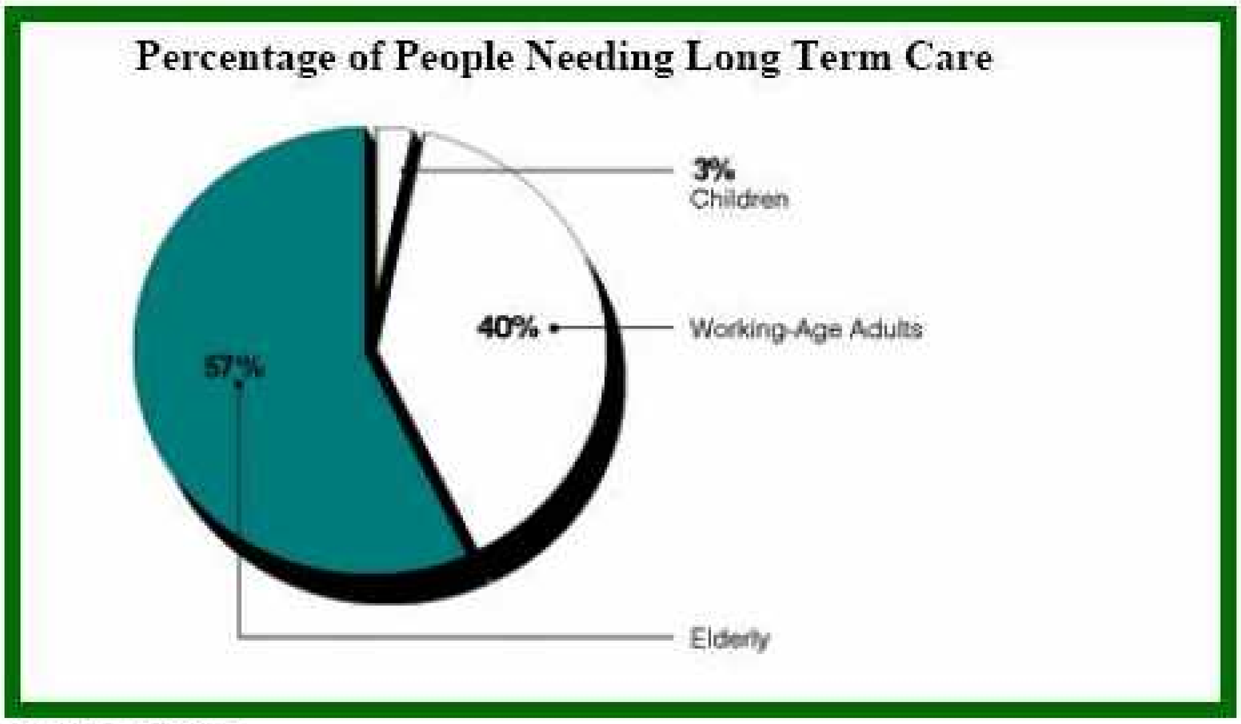

Percentage of People Needing Long Term Care
3%
Children
40%
Working-Age Adults
57%
Elderly

Chart C