

# THE SHERIDAN ROAD MAP

## *The Best Route to Financial Success*



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Welcome to the Sheridan Road Map! Your source of monthly insight into the financial world. Sheridan Road provides a one stop financial solution for middle-market companies, their executives and employees. We are the premier provider of Corporate Advisory, Corporate Retirement Advisory, and Wealth Management Services, by providing holistic and independent advice to our corporate and individual clients. The Sheridan Road Map will provide insight into both historical and topical issues, a calendar of upcoming events, industry news and analysis, and a "Friends of Sheridan Road" section which often spotlights a new company that may be of service to our clients. "Let us help you navigate your Financial Road!" Visit us at [www.sheridanroad.com](http://www.sheridanroad.com).

## NEWS RELEASE

**Chris Karam**, a Senior Vice President at Sheridan Road Financial, has been chosen as one of Institutional Investor News' *20 Rising Stars of Wealth Management for 2008!* As one of this year's Rising Stars, Chris will be recognized as an up-and-coming professional who is making an impact on the wealth management industry now and in the years to come. The Rising Stars were announced in the July 28th issue of *Private Asset Management*. Full write-ups of the award coverage will be in a special published supplement, with an issue date of September 29th.

Chris will join the other 19 Rising Stars at the **7th Annual High-Net-Worth Industry Awards**, being held on **September 15th** at The Pierre in New York City, where Institutional Investor will honor and award all of this year's 'Stars'.

Chris's recognition follows Sheridan Road Managing Partner, Jim O'Shaughnessy's 2007 selection as one of the 20 Rising Stars in the Retirement Advisory field. It is the first time that two advisors from the same firm have been chosen in subsequent years!

Chris specializes in portfolio management for high net worth families and trustees of employer sponsored retirement plans. Chris is adept at managing all aspects of the fiduciary investment advisory process and has a strong track record of success building and retaining assets under administration and investment management.

Sheridan Road Managing Partner, Daniel Bryant commented, "We are excited that our industry peers have recognized what we have already known about Chris — he's a superstar. His analytics, insights and attention to detail are critical in this challenging market environment."

July 31, 2008

## EXPANDING 401(K) PLANS TO HIRE PRODUCTIVE EMPLOYEES

Corporate America may have turned its back on traditional pensions but it appears to be embracing 401(k)s more than ever.

While retirement savings remain largely up to employees, companies are spending more to strengthen their plans through features that boost savings such as automatic enrollment, advice and more investment options. Some also are increasing or initiating matching contributions.

Many executives say it's a matter of meeting employee demand and makes good business sense too.

The trend of companies expanding their 401(k) programs was underscored in a poll of senior finance executives from large companies nationwide, released by the Charles Schwab Corp.

The survey respondents were not disclosed but evidence of 401(k) upgrades abounds.

The Schwab survey of 208 executives, conducted by CFO Research Services online in June, found that 84% agreed that a 401(k) plan is necessary for recruiting and retaining a high-quality work force. Also, 67% said they believe offering a 401(k) plan enhances the company's corporate reputation and 58% said it contributes to a company's long-term financial success.

Simply having a plan in place is not seen as enough. 87% of those surveyed said it's important to provide employees with investment advice to help them make investment decisions. And 55% said they expect to devote even more resources to strengthening their plans in coming years.

Dean Kohmann, Schwab vice president of 401(k) plan services, said employers recognize that it behooves them to give their employees assistance and tools to help manage their accounts. "There's a real long-term financial benefit, for their employees to be on track for retirement and financially fit."

# RESURRECTING THE DEFINED-BENEFIT PLAN

## These plans are great for high-earning small-business owners over 45 who need to play catch up on their retirement funding.

Ask successful small-business owners if they are happy with their annual IRS tax bills and most will moan and groan. That was the case with Bob Johnson, founder and CEO of Johnson Insurance & Financial in McKinney, TX. Fortunately, he found a way to shave \$200,000 off his tax bill in just three years. Johnson's tax savings came from an inconspicuous source: a defined-benefit plan.

While these traditional pension plans have become almost extinct among large corporations, they can provide valuable benefits for some small-business owners in the form of large tax breaks and hearty retirement savings — especially for high-earning small-business owners who are over age 45, behind on the retirement savings game, and anxious to contribute large sums to make up for the lag. That's because business owners can contribute a lot more to these defined-benefit plans than to defined-contribution plans.

In fact, most people are able to lock away three to four times more with defined-benefit plans. Annual retirement income is currently capped at \$185,000. The most a person can accumulate — based on actual calculations — is around \$2 million.

Johnson's financial services business generates a healthy net income of about \$500,000 annually. Until three years ago, he was conscientiously contributing the maximum allowable for his SEP, which was around \$40,000, a year. But being in the 35% tax bracket, he still had to fork over more than \$100,000 to Uncle Sam. So Johnson took the advice of another financial advisor: He opened a defined-benefit plan and began socking away \$200,000 annually. In addition to shaving

several hundred thousand dollars off his tax bill, he has accumulated more than \$700,000 in his plan, including gains.

Now, he's touting the virtues of defined-benefit plans to many of his clients. "This is an efficient way to create million dollar estates since you're able to deduct maximum amounts of money on your taxes, keep it, invest it conservatively and let it grow." In essence, the defined-benefit plan lets Uncle Sam subsidize small businesses to rev up their retirement funds.

"The financial services market is starting to realize these plans make sense for small-business owners," says Sarah Simoneaux, president of Simoneaux Consulting Services, and past president of the American Society of Pension Professionals and Actuaries.

### A Good Fit

Of course, defined-benefit plans aren't for everyone. They are best for older business owners who want to catch up on retirement savings in a short period of time and whose businesses have stable cash flow, says Simoneaux. Ideal candidates are high-income,

self-employed individuals, and owners of one- to five-person businesses aged 45 and older, such as doctors, dentists, realtors, consultants and even financial advisors, says Karen Shapiro, CEO, Dedicated Defined Benefit Services. The same contribution formula applies for both the business owners and their employees. Bosses with a large staff, highly paid employees or older workers nearing retirement age will most likely find these plans cost-prohibitive. Those who have a small staff, part-timers or younger employees will reap a much larger percentage of the retirement benefits.



## The Differences Between a Defined-Benefit Plan and a Defined-Contribution Plan.

	<b>Defined-Benefit Plans</b>	<b>Defined-Contribution Plans</b>
<b>Contribution Funding</b>	Solely by Employer.	Employer and employee.
<b>Contribution Limits (2008)</b>	\$185,000	\$46,000
<b>Benefits</b>	Predetermined using formula based on earnings and market performance history, years of employment, retirement age and other factors. Guaranteed.	Based on contributions. No guarantees.
<b>Suitable For</b>	High-income business owners who want to make large catch-up contributions.	Companies with fluctuating profits and employers who prefer discretionary contributions.
<b>Liability/Cost</b>	Employer retains liability for paying pension benefits; plans can be complex and costly to administer.	Employer liability ends when contributions are made; plans are relatively simple and inexpensive to administer.

# FAMILY MONEY: IN CASE YOU MISSED IT...

## You likely give more to the government than you need to. Here are some commonly overlooked tax breaks.

Millions of American taxpayers are much more generous than they realize—or intend to be.

Each year, many people overpay their taxes by neglecting to take advantage of deductions, credits and other breaks. Some commonly overlooked items, such as a one-time credit for the 2006 tax year for taxes paid on certain phone services, are relatively simple. Others, such as a recently enacted exclusion for mortgage-debt forgiveness, are easier to miss because they're new and can be tricky.

Welcome to what might be labeled "complexity taxes"—additional taxes that people wind up paying because they don't have the time, knowledge, energy or patience to master the increasingly complex Internal Revenue Code.

One way to reduce your chances of missing out on valuable tax breaks is to hire a professional tax preparer, as more than half of all taxpayers now do. Another is to buy inexpensive tax-preparation software, such as Intuit Inc.'s TurboTax. However, because tax laws change so frequently and have grown so complex, even these suggestions won't guarantee success.

Curiously, government officials say some people who clearly are eligible to itemize claim the standard deduction anyway. Those people may be doing so without knowing the benefits of itemizing. But some readers have told me they deliberately choose the standard deduction because they assume they're much less likely to be audited. That's fine—but don't expect a thank-you note from the Treasury Department.

Here are a few of what veteran tax preparers consider to be some of the most easily overlooked tax breaks:

**Phone tax credit:** After losing several court cases, the government stopped collecting a 3% tax on certain phone services in 2006 and announced plans for a one-time credit on 2006 returns. In general, you are eligible if you paid for long-distance or bundled phone service billed from March 2003 through July 2006. Most taxpayers were alert enough to request the credit. But officials were startled to see that nearly 30% of the returns filed didn't claim it.

**Sales-tax deduction:** This provision expired at the end of 2007 but is likely to be revived by Congress and made retroactive to the start of 2008. If you itemize, you can deduct your state and local sales taxes instead of your state and local income taxes. (You can't deduct both, however.)

This can be especially important for people who live in Florida, Texas and other states that don't have state income tax.

But you don't have to live in a no-tax state to be eligible to deduct sales taxes. This option is open to anyone who itemizes.

**Job-hunting expenses:** You might assume you can't deduct any job-search expenses unless you find a new job. Not so.

Eligible expenses include resume preparation, travel and transportation. However, job-search expenses are among the miscellaneous itemized deductions subject to what's known as the "2% limit." That means you can only claim the total amount of such expenses that exceed 2% of your adjusted gross income.

**Mortgage-debt relief:** Usually, if a lender forgives a debt of yours, that's considered taxable income to you. But late last year, Congress approved relief for many homeowners

with mortgage debt partly or entirely forgiven during 2007, 2008 or 2009.

**Out-of-pocket costs for charitable services:** Some people overlook deducting out-of-pocket costs when they serve as a volunteer for a qualified charitable organization, says Israel Keller, a certified public accountant at RSM McGladrey Inc. in New York.

Suppose the charity's office is 30 miles from your home, and you drive your car there. In that case, you can

deduct the costs of gas and oil that are "directly related" to getting to and from the place you're volunteering, the IRS says. If you don't want to calculate your actual costs, you can deduct 14 cents a mile. But you can't deduct the value of your time or services, the IRS says.

**Treasury bond interest:** Interest you receive from U.S. Treasury bills, notes and bonds is exempt from state and local income taxes. Make sure you don't forget to exclude that interest on state and local returns.

**Social Security withholding for multiple jobs:** If you worked for two or more employers during a single year, you may have had too much withheld in Social Security taxes. During 2007, for example, the maximum wages subject to Social Security tax were \$97,500, and the maximum tax that should have been withheld was \$6,045. (All wages, however, are subject to the Medicare tax.) If you overpaid, see IRS Publication 17, chapter 37, for details on how to claim a credit for the excess amount.

**Renting your home for short periods:** As most people know, rental income typically is taxable. But there's an important exception if you rent out your home for less than 15 days during the year. In that case, "do not include any rental income" in your taxable income, the IRS says. But if you rent out your home for 15 days or more during the year, then you include "all your rental income in your income," the IRS says.

### Take a Break

- **Missing Something?** Millions of people pay too much in taxes each year because they don't claim all the tax breaks they're entitled to take.
- **What to Do:** If you neglected to claim a tax break in the past, you can file an amended return within three years of the date you filed your original return, or within two years of the date you paid the tax, whichever is later.
- **What to Look For:** Breaks you may have missed include deductions for job-hunting expenses and for state and local sales taxes. Also check to see if you are entitled to a credit for overpaying Social Security tax.

# HEWITT FINDS VARIABLE PAY LEVELS EXPECTED TO FALL

*New research from Hewitt Associates finds pay raises for 2009 are expected to be mostly the same as increases U.S. workers received in 2008.*

## Hewitt Finds Variable Pay Levels Expected to Fall

According to a press release, Hewitt's survey of 1,073 large organizations reveals that base salary increases for salaried exempt employees will inch up to just 3.8% in 2009 from 3.7% this year and in 2007. Executive employees are projected to receive increases of 3.9%, while projected increases are 3.7% for salaried nonexempt and nonunion hourly employees and just 3.3% for union employees.

Of the 15% of companies planning to reduce their base salary budget in 2009, nearly two-thirds (64%) said they will do so because of concerns about the economy. Almost half (48%) anticipate that their organizations will undergo cost reductions, and 20% cited lower budgets among comparator groups as the reason for smaller budgets.

Despite the economic downturn, only 2% of organizations froze salaries in 2008, and only 1% plan to do so in 2009.

Variable pay bonuses—performance-related awards that must be re-earned each year—are projected to dip slightly to 10.6% in 2009, down from 10.8% this year and 11.8% in 2007. However, with 25% of the workforce nearing retirement age, companies are increasingly concerned about the growing talent shortage (68% reported problems attracting and

retaining employees this year, up from 46% last year), and they continue to turn to variable pay programs as a way to motivate their top performers and attract new talent.

A majority of companies (90%) have at least one type of broad-based variable pay plan, according to Hewitt's press release. Among the various types of awards, signing bonuses are the most common offered by employers (65%), followed by business incentives (63%), special recognition awards (56%), individual performance awards (41%), and retention bonuses (39%).

## Salary Increases by Region and Industry

Hewitt's research indicates that salaried exempt workers in some major U.S. cities should realize salary increases somewhat higher than the national average projections for 2009, including Washington, D.C. (4.3%), and Houston, Denver, Los Angeles and New York City (all 4%). The cities projected to have the lowest increases next year are Philadelphia and San Francisco (3.5%), and Boston, Milwaukee, and Minneapolis/St. Paul (all 3.7%).

The industries projecting above-average salary increases in 2009 include accounting/consulting (4.6%), energy (oil/gas) (4.5%), and construction/engineering (4.5%). The lowest industry average salary increases are projected to be forest and paper products/packaging (3%) and rubber/plastics/glass (3.3%).

*By Rebecca Moore • PlanSponsor, September 2008*

## BROKERAGE BINGE

### Top 10 Retail Brokerage Deals in the Last Decade Ranked by Price.

<u>Buyer/Target</u>	<u>Date Announced</u>	<u>Deal Value (\$M)</u>	<u>Price/LTM Earnings</u>	<u>Deal value/Revenue(x)</u>
1. Wachovia Corp./A.G. Edwards	5/30/2007	\$6,936.3	20.60	2.23
2. Alliance Capital Mgmt. Holding/Sanford C. Bernstein	6/20/2000	3,545.1	N/A	N/A
3. Ameritrade Holding Corp./TD Waterhouse Group	6/22/2005	2,734.5	15.15	N/A
4. Fleet Financial Group/Quick & Reilly Group.	9/16/1997	1,598.2	18.67	2.82
5. Investor Group/Linsco/Private Ledger	10/27/2005	1,500.0	N/A	N/A
6. Royal Bank of Canada/Dain Rauscher	9/28/2000	1,458.9	15.25	1.24
7. Thomas H. Lee Partners LP/Refco Group	6/08/2004	1,282.5	N/A	N/A
8. Nomura Holdings/Instinet Holding	11/02/06	1,200.0	N/A	N/A
9. First Union Corp./EVEREN Capital	4/25/1999	1,171.5	15.50	1.40
10. Wachovia Corp./Prudential Securities	2/19/2003	1,100.0	29.10	0.84

*Source: SNL Financial 3/2008*



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