Forensic Accounting Today

Newsletter of Ron J. Anfuso, CPA/ABV, An Accountancy Corp.

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RJA CPA ABV

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Serving all of California

Discussing the Need to Hire a Forensic Accountant with Your Clients

We recently conducted a survey at the *LA County Bar Association 2016 Family Law Symposium* on attendees who were able to take the time to participate. Our team carefully reviewed the responses. As a result, we are confident the conclusions we uncovered will help us better serve you and your clients.

Perhaps nothing caught our eyes more from the findings than the challenge some responding attorneys expressed concerning justifying to their clients the need to hire a forensic accountant. After all, most of the clients you serve are under at least some degree of emotional stress. Thus, it stands to reason that one of the recommendations by their attorney some clients may resist is the necessity for an additional expense.

When you initially contact us concerning the potential need to hire a forensic accounting firm on a case, we immediately consider ourselves part of your team. Thus, when you wish it, we will share with you our thoughts on educating your clients concerning the benefits of our services to help you motivate your clients to move forward. But why wait until then? We can provide you here with some general guidance that, based on our experience, could benefit you. For this reason, we will focus on this topic in our next two editions of ***Forensic Accounting Today***.

In this and the following issue, we are presenting a case that demonstrates the value of hiring a forensic accountant. We welcome you to share these editions with your clients.

We want to thank all of you who took part in our survey for your valuable input. I trust you will find what we chose to present helpful.

Ron

The Marriage of Collins: Turning a $4,000 Client Investment into a $300,000+ Savings in Spousal Support

By Robert Parker, CPA, MBA, Senior Accountant

Case Background

Melvin and Maureen Collins were married for thirty-five years. In 2005, the couple separated and subsequently divorced. Melvin, who was the sole breadwinner, has been employed as a professor of economics at a prestigious Orange County university. During their marriage, Maureen was a stay-at-home mom. Their divorce settlement included a monthly spousal support award to Maureen of $7,500, which Melvin paid to her through 2015.

Although Melvin recently turned 66 and could retire, he has remained in his position at the university. Including salary, frequent lectures throughout the USA and abroad, and several books he has authored for which he receives royalties, he continues to earn nearly $39,000 per month. His non-university income represents considerably more than half his total earnings.

Maureen, who is now 69, learned of Melvin's potential retirement, and proposed continued spousal support of $7,500 per month for five additional years. This request would be in addition to the split of Melvin's retirement account worth $4,000,000, which had been ruled community property per their divorce settlement agreement. Thus, Maureen was going to receive $2,000,000 soon. The matter in question was whether Maureen required the additional five years spousal support to maintain her standard of living given she already was to receive half of Melvin's retirement account. The total amount in question for the additional spousal support was $450,000.

Why We Were Hired

Should Melvin decide to retire, his annual earnings would significantly drop. Thus, he wanted to reduce or eliminate the amount of Maureen's request so he could maintain his lifestyle through this five-year period regardless whether he continued teaching. Melvin's attorney agreed. Thus, they hired our firm to determine whether the amount of Maureen's request could be reduced and, if so, by how much.

* *For an explanation of these titles, please visit our website or request a copy of Issue 3 of* ***Forensic Accounting Today****.*

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"Communicating directly with me doesn't stop when you send us forensic accounting work..."

IT BEGINS

"I always welcome calls from referring attorneys AND their clients... *regardless whether it's prior to beginning casework, when engaged in our assignments or after completing our work. Even if you've been serviced by a staff person, feel free to call me directly. Anytime. You may call my office or my cell. Type me a text. Send me an e-mail. I'll respond to you within one business day. And if it's an emergency and I'm tied up in court when you call, I'll get back to you as soon as I can make myself free. That's my promise."*

In most cases, discussing issues with the staff person working on your client's case is all you need. Although Ron hand picked our staff and all are competent professionals , Ron oversees each case the firm works on and is briefed daily. So, if you prefer to speak with Ron, in most cases, he will be completely up-to-date on the accounting issues of your client's case. In the rare instances he is not, he will call for a priority briefing and promptly get back to you with the answers you need.

RJA CPA ABV

Contact **Ron J. Anfuso, CPA/ABV, An Accountancy Corporation** to handle the accounting for your next case

Marriage of Collins: Continued from page 1

To achieve this goal, our initial step was to analyze the marital standard of living at the date of separation. We needed to ascertain when the retirement account would cap out at maximum support and, based on this, calculate what the retirement plan's annual distribution would be to Maureen.

Our Calculations

According to the Department of Social Security's life expectancy calculator, the assumption was Maureen would live to age 86. She wanted her $2,000,000 portion of Melvin's retirement plan to continue up to her life expectancy. *(The value of half the retirement accountant at the date of the expected initiation of distribution was calculated at $2,096,226).*

There are two acceptable approaches to determining cash flow. One is based on the *required minimum distribution* (RMD), which is an algebraic formula based on age, health and asset balance. The other alternative is *fixed withdrawal* (FW). As of December 31, 2015, the Moody's AAA bond rate was 4.04% and the 20-year S&P compound annual growth rate was 9.44%. To be conservative, we used a 5% growth rate.

RMD: We spread the required minimum distribution for seventeen years (*age 69 to 86*). The RMD base amount would begin at $75,474 for the initial year and then, on a gradient, increase each year to $139,052 for the final year. Based on the 5% annual growth rate, the ending balance of the account would stand at $1,810,455.

FW: Using the fixed withdrawal method, the balance at the end of the 17-year period would drop to near zero. However, the fixed annual withdrawal for each of the 17 years would be $168,950 based on the 5% expected annual growth rate.

Considerations

We expect that the opposing counsel will want to know if living 17 years using the fixed withdrawal method (*$168,950 withdrawal per year*) would be enough for Maureen to maintain her marital standard of living in today's dollars (the amount would be adjusted to inflation based on the expectations of a long-term marriage).

If Maureen were to support herself based on the required minimum distribution and spousal support, her husband would be required to make spousal support payments of $7,500 per month for up to five additional years, as long as he remained employed. However, if Melvin were to retire from the university within five years, Maureen would cease receiving spousal support and have to sustain herself on approximately $6,600 per month, with about a $300 to $400 increase per year. This would initially be around an 11% reduction in monthly income. Will she be willing to take the chance he will not retire?

In the next issue of **Forensic Accounting Today**, *we will explore more considerations and provide the findings.*

The above article was based on an actual case. However, the names of the parties involved and some of the facts were changed in order to protect the parties' privacy.