The Business Owner's Guide To Wealth




Building a successful business can take decades.

While working to grow, it's common to use all available assets above the salary you pay yourself to fund future expansion.

Where does that leave you on the retirement side of things? For most business owners, the retirement plan is some form of exit and monetization of your investment.

But you shouldn't wait until you're ready to retire to start planning. There are steps you should take while you're still in growth phase to build business value you need for retirement – and save you money along the way.

01 The End is the Starting Point

The value comes first, then the sale, and only then do many business owners think about how the sale proceeds will fund retirement.

There's a better way. Start with the amount of money you need to live the retired life you want. That's your benchmark for the value you might need to get from your business. Once you work in the tax ramifications of a sale, you can create a plan to build the business to your personal financial needs.

Early What's most important to you in the early stages of retirement? Travel? Family? Starting another business? How much will that cost?

Mid. As you age, what do you want your life to look like? Where will you live? How will you spend your time? Do you want to be able to help children and grandchildren? Do you want to devote time to philanthropy? What level of income do you need in these years?

Legacy. What will your legacy be? How will you fund it?

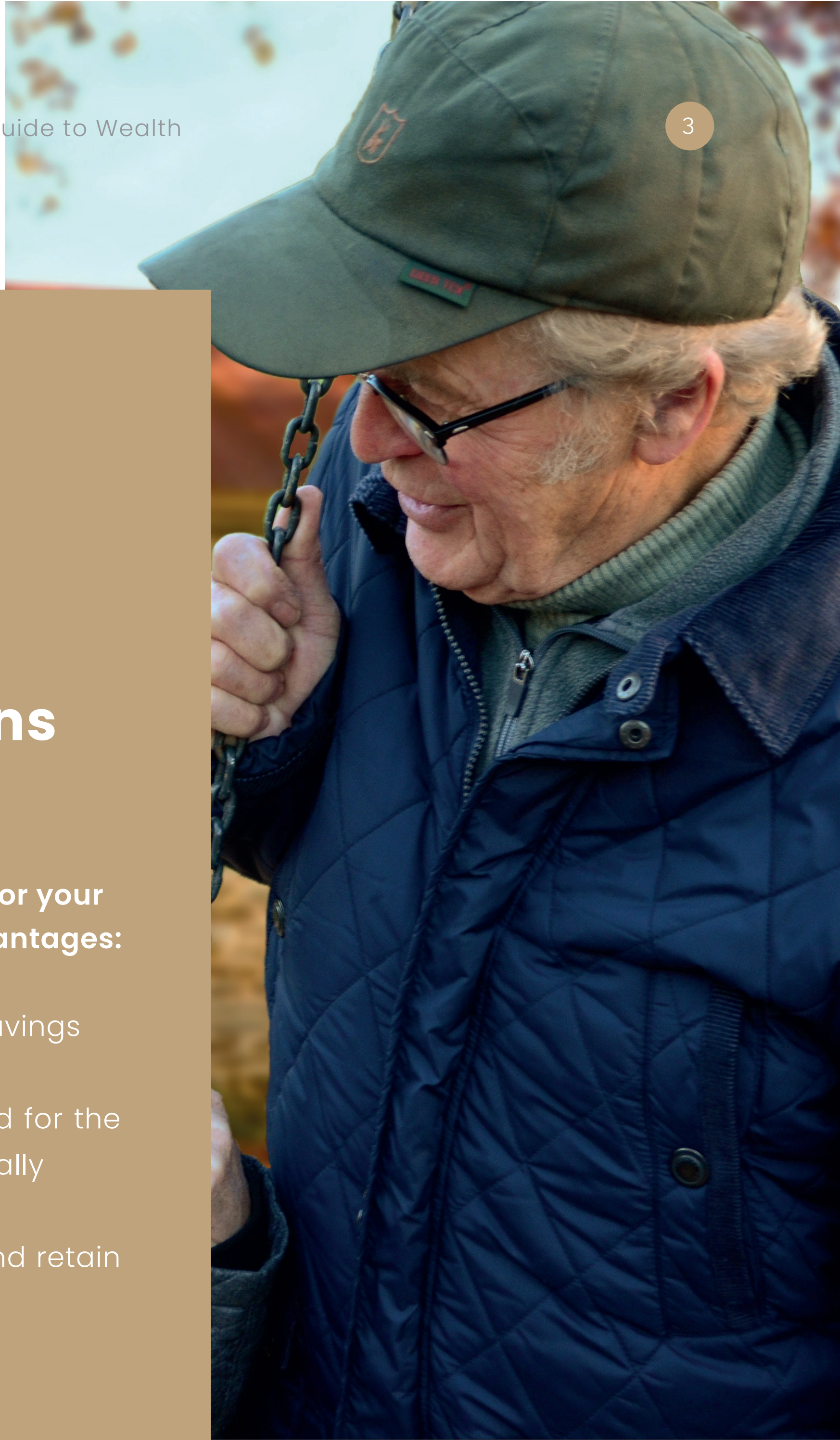
Once you've thought through what your retirement looks like, you can begin to think about the amount of money you'll need to make that happen.

02 Identify the Correct Structure

The choice of a corporate structure for a business has many consequences: a crucial impact on the business's taxes, your ability to raise funds, the paperwork you must file, and perhaps most important, your personal liability.

For many businesses, taxes are a primary consideration when selecting the corporate structure. Sole proprietorships, partnerships, and S corporations are known as pass-through entities, as are some LLCs. In these entities, profits are distributed directly to the business owners, and that means that on April 15th, net profits are reported on the owners' individual returns.

C corporations are independent entities from their owners, so their profits are taxed at the corporate level. If a corporation distributes dividends to shareholders, which are paid with after-tax income, shareholders also owe taxes on them. Owners cannot deduct business losses on their tax returns.



03

Don't Overlook Retirement Plans

Setting up a retirement plan for your business has three main advantages:

- It diversifies retirement savings
- It can be tax-advantaged for the business and you personally
- It can help you attract and retain top talent

If your business or professional practice is just you, a Solo 401(k) might be the simplest way to go. You can include your spouse on this plan, and it can be very cost-effective.

Larger businesses often set up a SEP or SIMPLE IRA plan. There are also advantages to setting up a full 401(k), but the administrative costs can be significant.

The SIMPLE IRA enables employees and employers to contribute to retirement accounts expressly set up for employees. They are available if your company has 100 employees or fewer. The employer has two options over how to contribute funds to the plan annually:

- **Non-elective contributions:** The employer contributes 2% of each employee's salary into the plan each year, even if the employee does not contribute.
- **Elective contributions:** Dollar-for-dollar matching contribution, up to 3% of the employee's salary.

The employee is always 100% vested in all the SIMPLE IRA funds.

Simplified Employee Pension (SEP) IRA plans can provide a significant source of retirement income by allowing employers to save money in retirement accounts for themselves and their employees. SEPs lack the start-up and operating costs of a conventional retirement plan and allow for a contribution of up to 25% of each employee's pay.

The employer makes the contributions on the employee's behalf. One key benefit: SEP-IRAs permit employers to omit contributions during years that the company is not generating a profit or is experiencing declining sales.

04 Increasing Value Requires Planning

Increasing value breaks down to making improvements across several essential functions:

- Improve Cash Flow. Lease instead of buy, reduce expenditures
- Lower Your Risk. Diversify revenue streams and create recurring revenue
- Attract and Retain Talent. Retirement plans, cash balance plans, stock plans
- Increase Profitability. Improve margins from both cost and revenue
- Streamline Operations. Inventory management, payroll control, etc.
- Enhance Pipeline. Build or refresh sales/marketing process
- Perfect Books. Accounting, taxes, legal outsourcing

05 Deciding to Partner With a Financial Advisor

If you are in the mid-to-late- stage of your business, it can be worthwhile to work with a financial advisor that specializes in helping business owners. If you're wondering how you're supposed to do all the things listed above while running the business, we have good news: you're not. The sales process has a very specific timeline. The value of bringing in outside expertise is correspondingly greater. Even if you could do all those things yourself, you can't do them all at the same time.

A financial advisor that routinely helps businesses manage the mid-to-late stage, and then stays involved after the sale, will be able to bring valuable expertise as you start to think about the next stage.

- An understanding of when to hire outside help, and a network of professionals to draw on.
- Serve as the quarterback for the professionals you need to bring in a sale on your terms.
- A practiced ability to benchmark your business to best practices and industry standards.
- A long-term lens that is solely focused on your financial goals and well-being.