PERSONAL FINANCIAL PLANNING:

AS A SMALL BUSINESS OWNER

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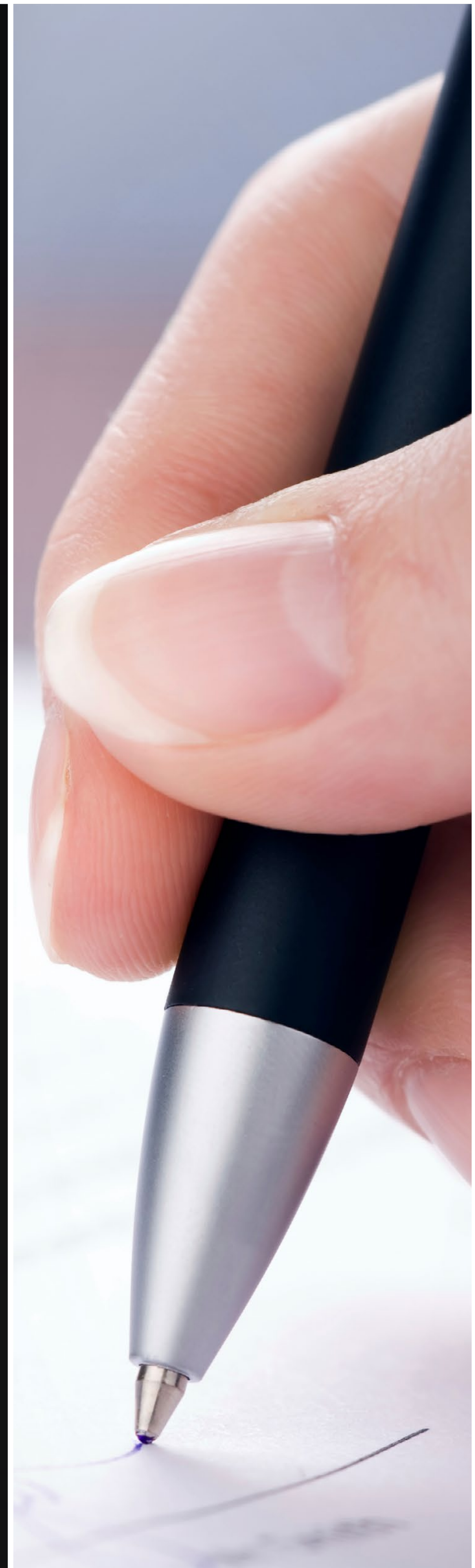

INTRODUCTION

As a small business owner, you probably have felt at times that running your business successfully is one of the most important things in life. It's likely you have poured a number of resources into it. For this reason, you should give careful consideration to your personal financial plan as well.

A solid business plan is critical to the long-term viability of a business, and similar attention should be given to your personal financial plan. A good CPA financial planner will take you through an integrated process that will address the considerations of both.

At a high level, this integrated financial planning process will involve:

- Determining both business and personal goals
- Conducting an assessment of business and personal resources, and determining which areas have opportunities for improvement
- Developing and implementing a strategy to help you achieve your vision — making sure to balance business and personal goals
- Monitoring the strategy to determine whether you are on track or if adjustments need to be made in light of changing business and personal goals

There are many important personal financial planning considerations for you to dive into with your CPA financial planner such as:

- Cash flow planning
- Retirement planning
- Investment planning
- Estate planning
- Risk management
- Tax planning

A ROADMAP FOR SUCCESS

The first step in an integrated financial planning process is to determine your personal financial goals. For small business owners, this process can be challenging because there's often no clear separation between personal and business goals. Just as you need to have a CEO for your business (usually you), you need a CEO for your personal financial life as well. While this may seem daunting, a CPA financial planner can act as your CFO, and help you implement the appropriate strategy to achieve your vision of both business and financial success.

Your CPA should lay out a roadmap during their discovery process to help understand your personal financial goals, such as when you want to retire or how to fund education, as well as the financing of other desires such as travel, a vacation home or charitable giving. Often, your personal values will drive personal financial planning recommendations.

RESOURCE MANAGEMENT

As a business owner, you may find it tempting to redirect all your resources toward your business. However, doing so can interfere with your personal financial success. For example, investing money into marketing or acquiring a new territory can be at odds with saving for retirement or funding your children's education. It's often a balancing act between how much to invest in the business and how much to allocate toward your personal financial plan. Focusing too many resources in one single area may put your overall financial success at risk.

And we're not just talking about financial resources. Your time and energy are two of your most important resources. If you are directing them solely toward your business, then you could be losing more than you know. Making time to meet with your CPA to discuss your financial plan and attend to the business of your day-to-day life is vital.

LIQUIDITY

"Cash is king" is an expression that is used often in the business community. This couldn't be more true for the viability of your personal financial plans. During times when your business' cash flow is struggling, it might be tempting to dip into funds earmarked for personal goals. This highlights the importance of maintaining adequate personal reserves that are kept separate from the business. Many business owners may find it easier for mental accounting purposes to have different buckets that each serve a distinct purpose. Once you determine fixed and variable personal expenses your CPA can run a cash flow projection to help you plan. Many professionals advise setting aside at least 3–6 months equivalent living expenses in a liquid, low-risk account. If the business is cyclical and cash flow is uncertain, it might be prudent to plan for a year or more.

Businesses are often financed through a combination of traditional external financing (banks and investors) and personal savings. Some business owners may also leverage personal assets through lines of credit, pledged asset lines or margin loans when cash flow is tight. Each of these types of personal debt has its own unique risks. It is imperative that you work closely with your CPA to assess the impact these financing methods have on personal cash flows as well as your ability to use personal finance contingency plans should your business encounter difficult times.

SETTING UP A RETIREMENT PLAN

Retirement might feel like it's a long way off, making it a lower priority or worse — something that would keep cash tied up or away from potential business use. After all, you're busy dedicating resources to growing the business, which you might feel is a "retirement plan." However, this thinking comes with risk. If the business fails to thrive, your personal financial plan will be in jeopardy. Your CPA can help you manage risk, which is one of the most important pieces to achieving financial success on a personal level. Having a conversation around retirement planning as a means of diversifying away from the business is something you mustn't ignore.

SETTING UP A RETIREMENT PLAN continued

Fortunately, there are myriad tax-advantaged ways for you as a business owner to save for retirement. Actually, you have the opportunity to put aside considerably more on an annual basis than what is available to non-business owners. Your CPA can add value by helping you determine which retirement plan is best for you and your business. Your CPA will want to know things like the number of employees at your business, their ages, any desire to offer a company benefit, how much you currently have saved for retirement, the company's cash flows, and your overall tax situation. Some of the available vehicles include: defined benefit plans, 401(k) plans, profit sharing plans, Simplified Employee Pension Plans (SEP) and more. Additionally, your CPA can help evaluate whether IRAs and Roth IRAs would help in your personal retirement plan.

CREATING AN INVESTMENT PLAN

Determine asset allocation — The first step in creating an investment plan is to determine your appropriate asset allocation (the mix of stocks and bonds), which will affect how risky your investment portfolio will be. When determining your asset allocation, sometimes it's helpful to think about your ability, willingness and need to take risk. Your ability to take risk is determined by many factors such as your investment time horizon, stability of your business income, cash flow needs, and options that exist should you need a contingency plan if the investment plan is at risk of failing. Your willingness to take risk is often referred to as your risk tolerance. Taking a look at how you responded to market volatility in the past can provide good insight as to your appetite for risk. Your need to take risk is determined by the rate of return required to achieve your financial objectives. There are times when conflicts arise, thus making the choices more difficult when you analyze your ability, willingness, and need to take risk. For example, you may have an incredibly low willingness to take risk, however this may be at odds with a desire to retire early. Your personal circumstances should be closely inspected with the assistance of a CPA financial planner who can help facilitate some of the discussion and run a financial plan.

Develop an investment plan — At one point or another you may have created a business plan which outlined all the steps you were going to take to stack the odds of success in your favor. Well, an investment plan is no different in that it dictates your strategy to create a good investment experience and outcome. The last thing you want to do is make an emotionally based decision that risks upsetting your investment plan. Special consideration should be given to your business industry to ensure that your investment strategy does not exacerbate the risks associated with over-concentrating in a particular market segment. As a result, diversification should be a core tenant of this strategy. Lastly, you should set aside adequate personal cash reserves (largely depending on the cyclical nature of the business) prior to starting an investment program.

THE IMPORTANCE OF AN ESTATE PLAN AND SUCCESSION PLANNING

You have worked so hard to create what is hopefully a very valuable asset. Careful consideration and adequate time should be allocated to setting up an estate plan that reflects your wants and intentions. This is especially important if you have plans for the business to survive to the next generation or be advantageously sold.

Think about what is most important to you and who (family, friends, colleagues) are best equipped to help continue your legacy. With adequate planning, it is possible to reduce estate taxes for the business and provide liquidity for your beneficiaries. You may need to explore a reorganization of the business to create different types of ownership for family members. For example, a commonly used vehicle is a Family Limited Partnership (FLP), which allows a business owner to use IRS valuation discounts for gift and estate tax purposes. Additionally, you may use buy-sell agreements or life insurance to help plan for an efficient transfer of your business. Note that when making these decisions, you will want to pay close attention. Your plan should be implemented immediately and reviewed often.

In addition to addressing the estate planning considerations for the business, there are many other reasons why the estate plan should be a priority for your personal financial plan. A comprehensive estate plan may include many other critically important documents as follows:

- **Will** — Helps determine how your assets will be distributed, assigns someone to settle your estate, and assigns a legal guardian if you have children. A will ensures that these decisions are made by you, as opposed to state law.
- **Durable power of attorney** — Assigns someone to handle your financial affairs in the event that you cannot.
- **Advance medical directive** — Assigns someone to make health care decision on your behalf and designates your preferred medical treatment wishes.
- **Revocable living trust** — Creates a separate legal entity for your personal assets, used primarily for the purpose of avoiding probate, which is timely, expensive, and not private.

As you can see there's too much at stake to neglect these other important areas. Additionally, as your personal life changes, you should update your estate plan to ensure that it is up to date and in line with your intentions.

ASSESSING PERSONAL RISK MANAGEMENT

Adequate attention should be given to a personal risk management program. To begin with, a CPA financial planner can help you with a comprehensive insurance review which will consider all of the following important areas:

- **Life insurance** — A life insurance needs analysis will help you to determine whether there are capital needs such as funding your child's education, paying off a mortgage, or creating an income stream for your surviving spouse if you were to pass away unexpectedly.
- **Disability insurance** — It's important to understand that personal disability income for you should be given careful consideration so that in the event you become disabled, proper measures are in place to minimize a gap in personal household income.
- **Personal property and casualty insurance** — Proper care should be given to all personal tangible assets that you own to ensure that your belongings are protected in the event that something happens.
- **Personal liability insurance** — It is imperative to ensure that you do not put your nest egg in jeopardy. Luckily, personal coverage tends to be fairly inexpensive considering the limits, especially when combined with your property and casualty insurance.
- **Health care insurance** — Owning a business often puts the health care responsibility of your family (and employees) on your shoulders. A CPA financial planner will be able to help you think about whether an individual/family plan or group plan would be appropriate.

Owning a small business is a great deal of work. Understanding how it interacts with your personal life and finances can be challenging. Fortunately, you don't have to face this challenge on your own. Your CPA financial planner is best equipped to navigate you through the important considerations of creating and running your business, as well as accounting for its needs and yours in a comprehensive, carefully designed financial plan.