

Are You Set for Life? It Depends

By: Joan Ridley, CFP, CBI, CEPA
President, Business Wealth Solutions

That Depends...

That depends upon what you mean by “set”. For some it means that you know what you want to do with for the rest of your life. For others it means you know what you want to do and you have the financial means to carry out those wishes. While you might think you are set for life, you really aren’t unless you have quantified your goals and have a solid plan to achieve them.

One of the first questions I ask a business owner in our first meeting is, “What do you see yourself doing when you are no longer involved with your business?” The answers I receive fall into a few basic categories:

- **Lifetime Worker:** “I love my work and plan to work forever, until I drop”, or something along those lines.
- **Recreational Retiree:** “I plan to golf, travel, drive my motorcycle cross country”, or some other fun activity.
- **Wealth Accumulator:** “I want to accumulate wealth so I can be financially comfortable, leave a legacy for my loved ones, and make a contribution of time and money to my church, my favorite non-profit”, or some other cause to help others.

No matter which category you find yourself in, each requires planning to insure that you end up with the life you envision. Each brings with it its own set of issues to be addressed. Also, the categories are not cut and dry. You might identify characteristics of each category that describe you. Let’s take a look at them.

Lifetime Worker

I am certain that some of you truly love your work. For you, the initial passion has never waned. But for others, maybe you plan to keep working for other reasons. Maybe you don’t know how to leave. For others, maybe you are acutely aware that you are the business. If you leave, there will be no business to sell. For some, your identity is so closely tied to the business that you just can’t imagine what you would do if your relationship with the business were to be severed. Also included in this category are those of you who are tired of running your own business, who plan to sell it, work for the acquirer, and draw a salary with all the benefits and perks.

The issues you face...

One question you need to ask yourself is, “what is my function in the business?” Do you oversee it, but it could run without you, or, are you involved with the delivery of the service or product that your company offers. If you have created a business that can run without you, your

business would probably have value even if you were to leave it. One scenario is an indication that you continue to work because

you truly want to, and, the other indicates that you work and will continue to work because you have to. If the latter is the case, you need to prepare for the day when you cannot work which will result in an involuntary exit.

Make absolutely certain that you and your key people are **adequately** insured for disability, premature death, and incapacitation of yourself. I recommend that you meet with a qualified insurance advisor to review your risks and coverage. He or she will evaluate your disability income and disability buy-out insurance, life insurance, and long term care insurance. Also meet with a qualified investment advisor to calculate your long term investment and cash flow planning. You will need to create a diversified investment portfolio separate from your business because the business will likely have little or no equity to unlock and reinvest if and when you leave, voluntarily or involuntarily. If you plan to sell and work for your acquirer, speak with a business consultant or another business owner to obtain a better understanding of the buyer's viewpoint before investing in this plan.

Recreational Retiree

Seventy-five (75%) of business owners wish they had not sold their business one year after they sell. The chief reason you might regret selling is that after six months of post-exit recreational activities, you might have no outlet for the energy you once invested in your business. Quite often a Recreational Retiree turns into a Serial Entrepreneur 18 months after exiting the business. He tires of playing all the time and seeks out opportunities to get back into the game of owning a business. His wife is usually disappointed that retirement did not work out the way they had planned - or not planned. Sadly, many Recreational Retirees experience health issues after leaving the business, usually because so much of your identity is invested in the business that removing it from your life could result in serious post-exit health issues. Recreational activities are fun for the first six to twelve months and then the unhappiness sets in.

One other issue for the Recreational Retiree is that all those recreational activities you are looking forward to cost money so you might find yourself spending far more than you had anticipated and must return to work just to maintain your lifestyle.

The issues you face...

If you are a Recreational Retiree, you will need to plan and invest long before you leave the business because recreational retirement activities will require a significant amount of invested capital to support your post exit lifestyle. This is also true if you will wind up acquiring another business to fill the void. If you are a voracious consumer, you need to be realistic about your ability to continue with your current lifestyle. You might not have a sufficient nest egg accumulated outside the business to support it.

Be clear about what your business is worth. If you have been consuming your profit on personal assets, it might be worth less than you think. If it has not shown a profit three to five years preceding your exit, it might have no value at all. If you have assets that require maintenance

and up-keep, personal debt (such loans on vacation homes, boats, and planes) and expensive collectibles, and if you want your spouse to be comfortable should you predecease him or her, you need to plan your estate well and properly insure for risks of death, disability, and long term care both before and after you exit the

business. You also have to do your homework to be sure that you will walk away with enough to support your lifestyle.

Wealth Accumulator

If you are a Wealth Accumulator, you are more likely to view your business as an asset whose role it is to increase your personal net worth rather than to provide for a comfortable lifestyle which is not an issue for you. Your business might also involve family members from two or more generations. Your vision is likely to extend beyond perpetuating a comfortable lifestyle in favor of passing wealth to the next generation and creating a better world such as through charitable works, helping underprivileged children, and working with peace-promoting organizations. You might already be involved with volunteer work. You tend to have a balanced lifestyle where your personal identity is not vested in the business.

The issues you face...

Chances are, your personal net worth outside the business is higher than business owners in the first two categories. You are more interested in reducing your potential estate tax and maximizing the amount of wealth to be passed to future generations. Being able to provide for yours and your family's financial security and lifestyle needs is usually not an issue.

You will need to implement sophisticated strategies to protect your wealth from taxation and to carefully plan the passing of the business to the next generation, if that is your wish. The most effective way to accomplish this is to correctly implement the right estate tax reduction strategies, which include maximizing annual gifting opportunities, planned giving to nonprofits, and to funding your estate liquidity and estate tax needs with the right life insurance with the proper ownership and beneficiaries. Selecting the right advisors is critical for you.

Even if you think you are set for life...

Stay abreast of changing rules such as taxes including: income, capital gains, Medicare, franchise, estate, and that's just for openers. Some recent changes might surprise you. Even if you have trusted advisors, always seek a second opinion from advisors who have greater expertise than your current advisors. Be sure the business entity you have chosen is the best choice. Without proper planning, your tax bill could exceed more than half of your sales



proceeds. It could take many years for any changes to have the desired effect, so seek a second opinion now. Regardless of whether you are a Lifetime Worker, Recreational Retiree, or a Wealth Accumulator, you will not be set for life until you know the facts and correctly implement the best strategies for you.