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INSIGHTS

BUSINESS PLANNING

Keeping Your Retirement Plans in Sync with Your Business

THE BIG PICTURE

As a business owner, you know what it means to be the boss, from managing employees, to winning new business, to paying the bills. But these aren't the only things you're in charge of. You're also the boss when it comes to your personal financial plans for retirement. And if eventually selling your business (or your shares, if the business if jointly owned) is part of your retirement plan, you'll need a good handle on what your business is worth at any given time. Knowing this key piece of information will allow you to make adjustments to your retirement plans when necessary.

The value of your business can change over the years, based on endless variables: demand for your goods and services, the economic climate, employee performance, and the success or failure of a new venture. Therefore, it's crucial that you not put all your retirement nest eggs into one basket. To put it another way: it's important to diversify your plans with other sources of retirement income.

Sources of Retirement Funds Outside of Your Business

There are many ways for you to create retirement income sources outside of the value of your business. One of the easiest ways to accomplish this is to create opportunities through your business. The upside to this approach is that whatever you set up for yourself can also be provided to your employees. Whether it's a traditional 401(k), a defined benefit plan, a Simplified Employee Pension (SEP IRA) or a Savings Incentive Match Plan for Employees (SIMPLE IRA), you and your employees can take advantage of a qualified retirement savings plan while your business benefits from certain tax deductions.

Additional opportunities for retirement savings through the business can include a number of executive benefits programs for you and your key employees, including permanent life insurance with cash value (to supplement retirement income) and disability income insurance (to ensure that a portion of current income is protected).

It may also be worth looking into the business assets you own. For example, if you own the property where your business is located, you may want to consider selling or transferring the business and keeping the land as a personal asset. The rent received from the new owner could provide you a tidy sum every month.

On the personal side, in addition to benefits you may receive from Social Security, personal IRAs, life insurance, investments and other holdings, an annuity may make sense. Annuities are designed to provide you with a guaranteed stream of income during your retirement years, providing you with a solid foundation of retirement funds that won't fluctuate.

Keep Regular Tabs on the Value of Your Business

Regardless of the sources of retirement income you establish, your plan should start with the value of your business. A good rule of thumb is to review the value of your business every three years, and/or any time there's an annual revenue increase or decrease of 25 percent or more. Significant events like bringing on a new partner, losing a partner or key employee to retirement, death or disability, or opening a new location are times it might make sense to reassess.

Your business succession plan is another important avenue to consider when it comes to your retirement. If you don't plan to find an outside buyer, who will take over when it's time for you to retire? How will the buyout be financed and – most important – how much will you walk away with when all is said and done? All of this will have a ripple effect on your total retirement strategy.

Knowing the value of your business at any given point will enable you to make adjustments to other sources of retirement income to cover any potential short falls. Retirement planning is a balancing act that requires diligence, foresight and proper planning.

Get the Most Value out of Your Retirement

After being your own boss for years or even decades, you've earned a stress-free retirement – one without financial worries. By staying on top of the value of your business and adjusting your retirement savings and expectations when you need to, you'll be well on your way.

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