OWN UP TO YOUR PERSONAL FINANCIAL PLANNING

SIX KEY FOCUS AREAS FOR GREEN INDUSTRY BUSINESS OWNERS.

BY BRIAN MARINO

Simply hoping that a potential sale of your Green Industry business will provide for your retirement needs is not an option. It's crucial for small business owners to spend time focusing on their long-term personal financial planning to ensure they have the leverage, flexibility and control to achieve financial independence.

We're often reminded by experts to spend time working "on the business" and not just "in the business." This concept leads owners to focus on everything from profitability to employee retention to succession planning. Each of these areas and others are integral to grow as an organization, but the challenge becomes ensuring that you tie your business planning into your family's personal financial planning.

The reality is there's never a good time to do planning until it's too late. It's easy to put off your planning, only to wake up and realize that five, 10 or 15 years have gone by and now you have to play catch-up.

Fear not: Today is a great day to start. Here, we simplify financial planning into six focus areas: financial position, protection strategies, wealth accumulation, retirement planning, tax reduction strategies and estate planning.

1 ▶ FINANCIAL POSITION

Financial position is about finding the unique plan that fits within each family's goals, objectives and philosophies. It's all about efficiency; most people are unintentionally inefficient. To get your personal financials in order, you need a personal balance sheet, a family budget and an efficient debt management plan.

The balance sheet, or net worth statement, is as simple as listing all of your assets and liabilities with the values or balances tied to each.

Next comes a family budget. Most business owners and executives have great cash flow statements for their organizations, but getting them to put their personal spending on paper is like pulling teeth. This task usually gets delegated to the person in the family who does the spending or pays the bills. Regardless of who creates the

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draft, both spouses (where appropriate) must weigh in on the month-to-month cash outflows.

Part of a healthy balanced budget is managing your debt properly. From mortgage and car payments to your credit cards, lines and loans, it's important to be as efficient as possible with each piece of debt you have. Smart debt management is about leverage, i.e., maximizing monthly cash savings by balancing the payoff timeline with the interest you'll pay.

2 ▸ PROTECTION STRATEGIES

Once your financial house is in order, turn your attention to the "what ifs" that can derail planning. Even the best-crafted business or financial plan isn't worth the paper it's written on if it doesn't address potential roadblocks. To address these, we need to delve into the world of insurance. It's an imperative part of your planning with an undeserved stigma that most can't afford not to look into. Basic protection strategies include the following types of insurance: life, disability income, long-term care, home, auto and liability.

Many people buy life insurance because they "love someone" or "owe someone." I've never had a client tell me a death benefit check was too big. Most of us will use life insurance for several different reasons. Some use it for business buy-outs; others use it for college funding or to ensure that should they pass away prematurely, their family won't have to compromise their quality of life. Some will even use it for cash accumulation on a tax-advantaged basis.

With disability income and long-term care, you're looking to protect both your working years (disability income) and your retirement years (long-term care). These types of insurance can be complicated. Having the right policy design is crucial.

Liability coverage has become a commodity today with everyone looking at price. Price is important, but ensuring you have the proper coverages, limits and deductibles is vital when one of your largest personal assets is your business—even if it means paying more for a better company or product.

Business owners should work with their tax and financial professionals to help structure these coverages to provide for tax efficiencies, when applicable. Regardless of the type of insurance, working with a seasoned professional will help you get it right and keep it right as you go through life.

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3 ▶ WEALTH ACCUMULATION

Most of our working years are spent in wealth-accumulation mode, trying to stockpile enough dough to last through the long winter that is retirement.

Along the way we each have goals and objectives we strive to accomplish based on our standard of living and what we want in life. Each requires an individual strategy and an understanding of how the components of funding a goal tie together. For each objective consider the following:

› **Goal** – How much of the expense I want to cover?

› **Timeline** – When do I need the money by?

› **Inflation** – What's the total cost in future dollars?

› **Growth** – What rate of return do I feel comfortable working to attain?

The parameters above will help you determine how much you have to save, but that's just the first step. Next, you'll want to figure out how to invest it and in what type of vehicle. This shouldn't be a one-and-done scenario for most people, as there are a multiple of ways to save for any given objective. Working with a financial planner and/or a registered investment advisor can help you determine the savings goals tied to each of your objectives, then help you create the investment strategy that fits with your family's philosophies.

"THE CHALLENGE IS TO TIE YOUR BUSINESS PLANNING INTO YOUR FAMILY'S PERSONAL FINANCIAL PLANNING."

4 ▶ TAX REDUCTION STRATEGIES

"You never let the tax tail wag the dog," but, you need to be mindful of our ever-changing tax environment.

Most business owners today work with CPAs on both their business and personal tax returns. The focus is typically on reducing tax burdens today. In addition to minimizing the tax burden in each working year, you need to begin planning for the tax implications in retirement.

Consider these common assets: 401(k), Roth IRA, annuity and nonqualified brokerage account. The money

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in each of these is taxed differently. How and where you save/invest your money over the next 10, 20 or 30 years can have a tremendous impact on how much of your money you actually get to spend when you go to use it. That's why it's important to build a sound savings and investment plan that complements your business and other assets.

5 ▶ RETIREMENT PLANNING

From wealth accumulation to wealth preservation, the ultimate goal is retirement income distribution. Financial independence means something different to everyone. Some business owners we work with tell me that they'll "never retire" and continue to have some role in their companies for the rest of their lives. Others want to get out as fast as possible. Even if you fall somewhere in between, retirement typically will be one of the largest goals most people accomplish.

Retirement planning doesn't have to be daunting, but for many, the unknown of how much they have to save each year and what return they need to achieve can prevent them from ever

Determining retirement income

Use these parameters to determine how much income you'll need when you retire.

› **Projected business sale.** This factor is challenging, especially if you're looking 10 to 20 years ahead. If the year you plan to retire falls in line with a negative economy, this number may not be what you thought. It may force you to extend your timeline. Working with a good advisor, you should be able to come up with a conservative projection.

› **Fixed income sources.** From Social Security to pensions, the next step is determining what you have coming in each year and how it will inflate over time. Many sources will provide more income the longer you wait to turn them on, so you most likely will find yourself looking at multiple options for each.

› **Investable assets and current savings.** Look at all the wealth you've accumulated outside of your business in cash and investment accounts and tie in how much you're adding to these each year and at what rate they're growing. This includes other assets (other things you own that could be used/sold to produce a cash equivalent) and inheritances (these can have a major impact on a retirement planning picture.)

If we assume these three factors will make up most, if not all, of your income streams in retirement, you can begin to project how close you are to hitting the target you want. Don't forget to account for income changes throughout your working years and expense changes in your budget. Thirty years from now, most people will have a different view of the lifestyle they want to live.

getting started. Don't fall into that trap. (See "Determining retirement income," above, for more information.)

6 ▶ ESTATE PLANNING

The last key area of planning ties into the eventual transfer of all your assets—and the documents you may need in place to ensure things happen the way you want. These could include wills, living wills, powers of attorney or any number of different types of trusts.

Many bad things can happen when you don't have a proper estate plan in place, including having monies tied up in probate, paying additional taxes and fees or losing assets all together. Meet with an attorney to understand your options and what makes sense for you and your family. The attorney who drafted your operating agreement or your buy-sell agreement may not be the same person to use when it comes to your personal documents. Find the right person and get the documents done. Once completed, review them as life events happen, or at least every three to five years.

TOTAL INTEGRATION

Now that you know the most important areas to focus on, what's next? The key to effective financial planning is to integrate all of your advisers and strategies. It's the only way I know to help business owners make their plans efficient and coordinated. Typically, a good financial planner also will play the role of a quarterback and help manage each person on the team, including your CPA, attorney, debt specialist and liability specialist. They all should talk to one another, considering they each play a vital role in ensuring you complete your plan. Knowing that all these areas coordinate should create some much-needed peace of mind.

If you aren't following your plan, whose plan are you following? The sooner you start planning, the better off you'll be. What are you waiting for? LM

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