Exiting Your Company and Meeting Retirement Goals

Business owners are often so focused on the day-to-day tasks that they fail to consider the future. But taking some time to step back and look ahead can help you factor your expectations for retirement into both your business structure and your exit strategy.

How can a business owner get started with planning?

There are some small things you can do now that can have a big impact on your future. Start thinking and mapping out your vision for what you want in your future. It always helps to have a clearly defined destination and plan, versus just dealing with issue after issue on a day-to-day basis without an end in sight. Many business owners get caught up in the management and growth of their company, but fail to look forward to their personal future until it's upon them. It's not always the case, but a lot of business owners think more about the business than they do about their own personal goals.

How can a business owner determine realistic expectations for retirement?

Sitting down with an adviser is a great start. A good adviser will force a business owner to put down on paper and thoroughly consider their long-term goals, and then explain the paths available to help reach those goals. By creating a road map, the adviser and business owner can together figure out aspects of retirement that the owner may not have considered. One thing many business owners fail to consider is that while they are working, the company is paying for many of their benefits. They're still paying taxes on that income, but it's not showing up on their personal income statements. The company may pay for their cars, insurances, trips for business purposes; even smaller ticket items like cell phones are also paid for by the company. When you look at a realistic retirement number, you have to bring those numbers back into the personal planning side because you won't have the business to pay for them.

Are there any similarities among business owners?

Generally, business owners fall into three different categories. The first type is a business owner that has created a business based solely on their capabilities. An example of this would be a consultant, or independent professional (lawyer, accountant, doctor, etc.). In that case, the business is a tool to generate income, which needs to be used to build personal retirement assets because the business itself isn't going to be a large nest egg for retirement. In some circumstances there is a 'sellable' product, like a book of business, but it may not generate enough revenue when sold to pay for the owner's retirement.

The second type of business owner is one who puts all of their time and money back into the business. Their goal is to build the value in this company, and when they walk away from it, it's going to be their nest egg. In a case like this, you'll find business owners in their 40s and 50s who don't have a lot of personal assets, but the business has a large value because they've poured all their money back into the company.

Finally, there is the business owner who wants to pass the business on to the next generation. This type of owner has to consider the needs of the business, their own needs and the needs of the family. Here, it is vital for the owner to have an adviser to help plan for retirement and also help build sufficient capital and skills in the next generation to buy and run the business.

Determining which structure your business falls into can have a large impact on the direction of your planning. Next, asking questions like 'When would you like to retire? How much money do you need? Would selling the business now provide that amount? If not, what would you need to grow the business by in order to reach that number? Is that realistic?' The business owner may then say, 'It is,' or, 'It isn't right now, but it could be.' Once you get the number, then the real fun begins: working through the more technical business and estate planning.

Working with an advisor is an on-going process

Business owners often need a lot of guidance throughout this planning process because there are multiple steps and not all of them take place at the same time. You may implement one-quarter of what you need to do in the first year, and work through the rest of the plan over the next few years.

What mindset helps a business owner through this process?

It may seem counterintuitive, but the less valuable you are to your business, the more valuable your business will be. If you are going to sell, it is imperative that you build independence within your current business structure to continue the business in your absence. If your business can run without your constant oversight, then surviving a transition will make your business more valuable. A prospective buyer most likely isn't looking to keep you as part of its long-term vision, so they need to be able to see it without you. Not only will this build the business's value, but it will also give you the time and attention you will need to plan your own retirement.

- David Kucharski, ChFC®, CFBS