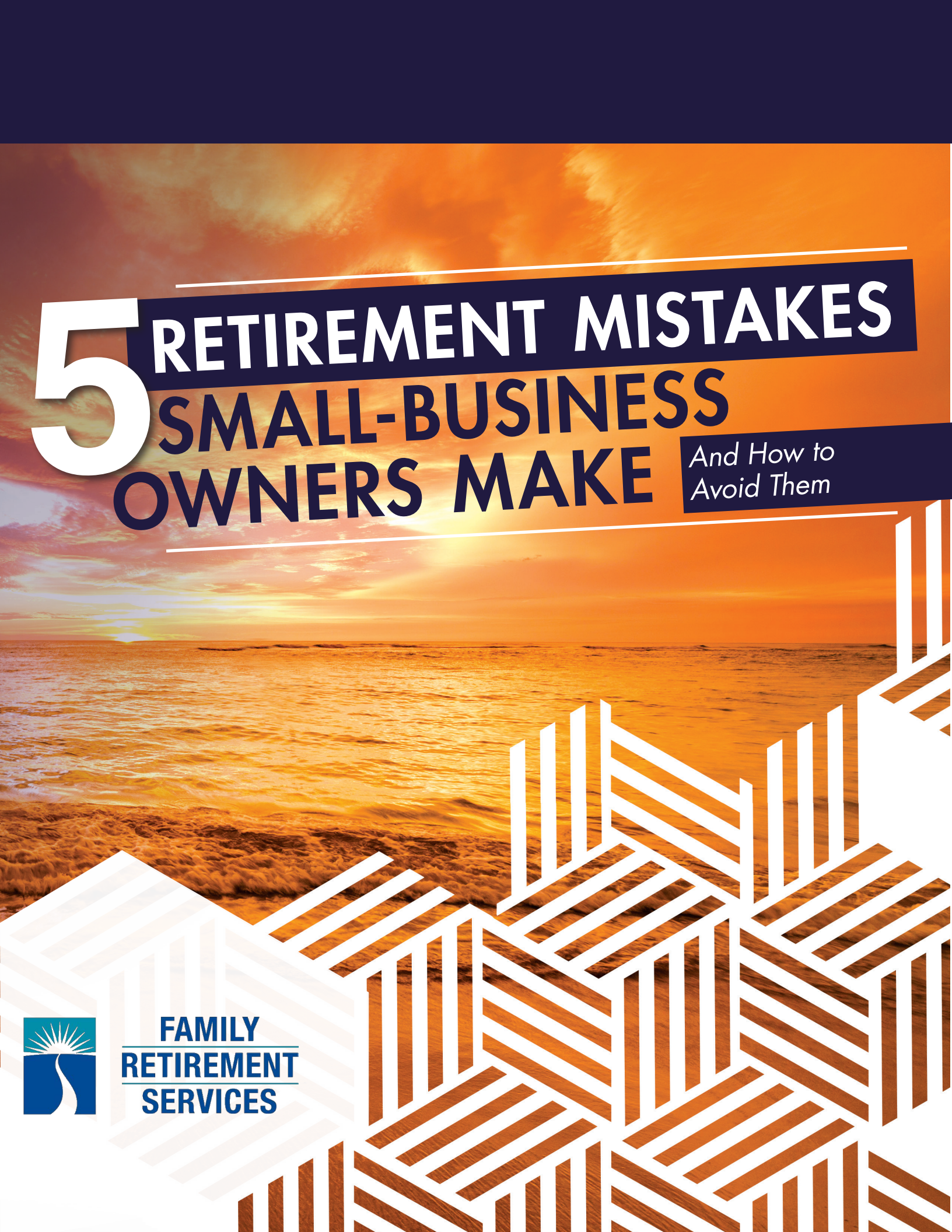

5 RETIREMENT MISTAKES SMALL-BUSINESS OWNERS MAKE

And How to Avoid Them

FAMILY RETIREMENT SERVICES

As a business owner, you face unique challenges and opportunities when building your financial future. This special report provides insights on mistakes to avoid and steps to take for building the retirement you desire—while managing your myriad responsibilities.

Small-business owners are an essential component of keeping America's economy churning. In the United States, small businesses with 500 or fewer employees make up 99.7% of companies and are collectively worth more than $10 trillion.[1]

Too often, however, small-business owners spend so much time and energy building their companies, they neglect their personal financial futures. They might consider their companies to be their retirement plans but don't create the structure or strategy necessary for turning financial success into a meaningful retirement.

With this report, our goal is to help businesses owners avoid costly mistakes and confidently plan for the retirement they deserve.

MISTAKE # 1

Not Creating a Retirement Road Map

Almost half of business owners DON'T have retirement strategies in place.

Building, running, and growing a company is tough. Business owners have countless responsibilities, and too few hours in the day. Often, in the midst of fulfilling your professional priorities, you end up putting your personal financial life on the back burner.

If you have not planned for your retirement, you are not alone. Many entrepreneurs think growing a business is all they need to retire. However, simply having a business does not automatically mean you have a retirement strategy in place.[2]

Without a documented road map—one that goes beyond the hope to sell your business or to pass it to family—you could end up pushing back your ability to retire. In one survey, 28% of respondents said they would delay retirement if they could not sell their businesses or receive the money they needed.[3]

Delaying retirement is not always an option, though. Life often brings surprises and challenges, and you cannot always control when you retire. In 2016, 55% of people who retired early did so because of challenges, such as health problems or disability.[4] To help ensure you can experience retirement on your terms—rather than reacting to what life or the business world throws your way—you need to proactively address these items…today.

WHAT TO DO NOW:

- Define your ideal retirement. Clarify when you want to retire and what lifestyle you hope to enjoy.
- Build strategies to address your retirement. Determine the actions you need to take to fill the gaps between your current assets and the income you will need to support your desired retirement.
- Hold yourself accountable. Do not let the busy life of business ownership keep you from staying on track toward the retirement you desire.

MISTAKE #

2

Not Having an Exit Strategy

Only 15% of US businesses survive to the 2nd generation—and 5% to the 3rd generation.[5]

For many business owners, the idea of selling their companies for top dollar or passing them down to future generations is a retirement dream. Many entrepreneurs, though, are not doing the work necessary to turn this dream into a reality.

In the United States, 60% of small-business owners are baby boomers who plan to retire in 10 to 15 years. However, only 1 in 8 has a business succession plan—regardless of the company's success.[6] In fact, a survey of business owners with more than $3 million of investable assets found that 64% of respondents ages 50 and older did not have a formal succession plan.[7]

No matter how long you want to work and how much you love your business, a clear exit strategy is necessary to help foster the company's longevity and preserve your financial health. If you want to be able to retire when and how you would like—and have your business last beyond your career—you need an exit strategy for accomplishing that goal.

WHAT TO DO NOW:

- Define your ideal exit strategy. Do you want to sell your business? Pass it to the next generation? Find an outside successor?
- Determine the real value of your business. Hire a qualified professional to provide a clear valuation of your company as it is today. Depending on how far you are from retirement or exiting, you might need to revisit this valuation in the future.
- Create a strategy—and stick to it. Your exit strategy might require you to hire new people, adjust your services, or implement a number of other changes.

MISTAKE # 3

Not Having Separate Retirement Savings

Trying to build retirement savings while you foster your business can be challenging. With only so many dollars to go around, and an endless list of professional expenses, you might rather reinvest in your company. However, even if you are ready to sell your business at retirement, you need to have savings that are completely separate from your business.

The reality is that solely relying on the value of your business to carry you into retirement is a risky approach that can easily backfire. Not only can industries change and companies falter, but only 20% of businesses listed to sell actually do.[8] Would you and your family be able to enjoy a comfortable retirement without your current income or profits from selling your business? If the answer is no, now is the time to start building your savings.

WHAT TO DO NOW:

- Balance your personal and professional finances. When deciding how to invest your available assets or what salary to draw, make sure you focus on addressing both sides of your financial life.
- Explore available retirement-savings tools. From SEP IRAs to 401(k)s and beyond, small-business owners have access to a variety of vehicles for building retirement savings.
- Review your budget, and create a disciplined savings approach. Identify ways you might be able to trim your current expenses or save on your tax liabilities. Also, establish a habit of regularly contributing to your personal retirement savings.

In one survey, only 32% of respondents ages 45 to 64 had saved more than $100,000 in retirement accounts.[9]

MISTAKE # 4

Not Having Sufficient Life Insurance Coverage

Only 47% of small companies have any type of business life insurance.[10]

Most people are familiar with life insurance, but the role this product plays for small-business owners often is more complex than for the typical individual. Of course, sufficient life insurance can help protect your family's financial security if you were to pass away. A business owner, though, could have an extra liability: business collateral. If you take out loans to support your business and you pass away, your family members are on the hook for that debt, which could jeopardize their financial standing. However, with the protection of life insurance, your loved ones are covered.[11]

In addition, life insurance can be a tool for supporting your company's longevity.[12] Luckily, the coverage you need might cost significantly less than you expect because people often overestimate the cost of life insurance. In fact, the median guess for the cost of $250,000 term life insurance was more than twice the actual price.[13]

WHAT TO DO NOW:

- Analyze your current life insurance coverage. Do you have the right tools? Do you have unrecognized gaps?
- Address your family's life insurance needs. Calculate your total debts and expenses to find the amount your family would need if you were to pass away prematurely.
- Uncover your business life insurance opportunities. Work with a professional to determine how life insurance might be able to help support both your business needs and your retirement goals.

*Guaranteed interest rates are based on the claims-paying ability of the underlying insurance company. Additional benefits and riders may increase the cost of the premium or reduce the interest rate earned. Applicants are subject to underwriting, which may include medical history and current health.

MISTAKE # 5

Not Hiring Outside Support

Nearly three-quarters of business owners do not have a dedicated financial representative or banker.[14]

Running a successful small business requires a number of skills—from delivering your product or service to managing employees and growth. Accustomed to shouldering a vast number of responsibilities, many business owners seem to forget they do not have to go it alone.

Hiring outside help not only gives you access to experienced professionals who can apply their expertise to your specific needs, but it can also save you significant time. In a 2016 survey of almost 1,700 growth-oriented small businesses, almost 60% expressed challenges with understanding and managing laws and government regulations.[15] They spent an average of 4 hours a week just dealing with regulation and tax compliance.[16]

So, business owners have both personal and professional financial strategy needs on top of regulatory and tax burdens, thus increasing their need for professional support. Unfortunately, 36% of entrepreneurs seek advice from the Internet instead.[17]

WHAT TO DO NOW:

- Determine what professional support you need. You likely should consider hiring a tax professional, attorney, and financial representative. Your unique circumstances might require additional support.
- Ask your professionals to work together. Aligning your financial life requires an understanding of its many facets. Make sure your support team has a clear picture of how your various pieces intertwine.
- Embrace the benefit of outside professionals. Your financial representative and other professionals are there to help support your needs with professional guidance. Let them provide the insight you need and take the weight off your shoulders.

HOW WE CAN HELP

Launching and growing a small business is a challenging, time-consuming endeavor that is not for the faint of heart. As experienced financial representatives, we are here to help you overcome the obstacles that business owners often face and help you seize the opportunities before you.

In times of economic fluctuations and changing regulations, we believe it is critical to seek guidance from a financial representative. The tips in this report are a helpful overview of what you might need to address for your own retirement, but your complete answers are as unique as you are. From our experience, small-business owners who recognize and avoid these common mistakes—and take proactive steps to plan for the future—are better able to enjoy the lives they desire.

We know balancing your personal and professional priorities is tough. We are here to serve as a resource for you and your family. We are happy to discuss your current financial situation and future goals with a free, no-obligation consultation at any time.

If you have any questions about the information you read or would like to discuss your specific needs, please contact us. We would be delighted to speak with you.

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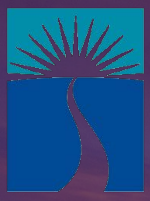

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