

Turning Your Small Business Into a Retirement Plan

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(This link contains a copy of the handouts + additional info)



Overview

- Understanding your most valuable asset
 - YOUR BUSINESS IS LIKELY YOUR MOST VALUABLE ASSET!
- Migrating from “book” to “practice” to “business”
 - UNTIL YOU MIGRATE YOU ONLY HAVE A JOB!
- Developing key processes
 - PUTTING SYSTEMS IN PLACE IS THE KEY TO YOUR FREEDOM!
- Putting a succession plan in place
 - THE DAY OF RECKONING WILL COME!
- Taking control of your finances
 - YOU HAVE TO UNDERSTAND THE MONEY!

Evolution of a Business

- Technician to Manager to Entrepreneur
 - Migration from “In your business” to “On your business”
- “Book” to “Practice” to “Business”
 - Book – Transaction centric, minimal repeat business
 - Practice – Relation centric, owner driven
 - Business- Process centric, employee driven
 - Book << Practice << Business
 - As you “move up the chain” you develop a business of more value
 - As you “move up the chain” you develop a business that works FOR you....
- Great Resource – “The e-Myth” by Michael Gerber

Process, Process, Process

- How do you find time to go on vacation?
- How do you replace yourself?
- How do you make sure that you have good quality?
- How do you make sure that you are profitable?

BY PUTTING PROCESSES IN PLACE!

People Process/Strategy

- The most important process is the people process/strategy
 - Hire for character and potential – people are an investment
 - Ensure that you use some sort of formal screening process (DISC, Kolbe, Targeted Selection, etc.)
 - Get feedback from peers/current team members
- Realize that this will take time and effort
 - Your team will dictate:
 - Your ability to step out of your business
 - Your client's satisfaction
 - Your profitability

“Show Me The Money”

Financial Processes are Key

- You ARE running a business
- As such, you need to understand:
 - Cash Flow Statement
 - Income Statement
 - Balance Sheet
- Options to understand this important topic
 - Books
 - Classes
 - Peers
- Key Partners
 - Book keeper or accountant (backward or forward looking)
 - CFO vs. controller (forecasting or reporting the numbers)
 - Financial advisor – NOT A SALES PERSON!

How Do I Fund Retirement?

- Three options:
 - Sell the business:
 - Sales price dependent on profitability and multiplier
 - Higher multiple the more stable it is + the more upside available
 - Processes are critical
 - Function as the CEO indefinitely:
 - Some business owners never want to leave
 - Migrate out of day to day
 - Processes are critical
 - Diversify/pull money out of the business along the way:
 - Pay yourself first
 - Do so in a manner that effectively defers taxes
 - Develop and implement an investment strategy

How Much Do I Need to Retire?

- Rules of Thumb:
 - Need to save **25 times annual expenses** at retirement
 - **Save 25% of your salary** to reach this goal
 - Assumes you spend 50% of your salary and taxed at 25%
 - Assumes 3% inflation
 - Assumes you work for 25 years and earn 8.6% on investments
 - How to save 25% of your salary
 - **Save ½ of every raise (or extra profit) until you reach 25%!**
 - Spend (or invest in the business) the other ½ on an experience (e.g. no lifestyle creep)
- Reality:
 - Need to perform a cash flow projection that considers income, expenses, and assets
 - Analysis needs to factor in inflation

Business Succession Planning

- Near term:
 - Business continuity planning
 - Disability insurance
 - Disability buyout insurance
- Mid-term:
 - Buy-sell agreement
 - Buy-sell funding
- Long-term:
 - Generational planning
 - Tax impact mitigation

Tax Deferral Strategies

- Defined Contribution Plans:
 - IRAs:
 - SEP (25% of compensation / equal to ALL employees)
 - SIMPLE (\$25K max / 3% to employees)
 - Individual (\$5,500 max)
 - Roth (\$5,500 max / after tax)
 - 401(k)'s:
 - Individual
 - Sponsored
- Defined Benefit Plans:
 - “Traditional” pensions
 - Cash Balance Plan widely used

401(k) Plan Design

- 401(k) allows you to defer:
 - \$18K or \$24K (over 50) of your income
 - An additional \$36K of company profits
 - COMES STRAIGHT OFF YOUR TAXABLE INCOME!
- Individuals with no employees working more than 1000 hours a year can implement a solo-401(k)
 - Minimal (\$500) costs
 - The best deal going
- Individuals with employees need to retain expertise to design and implement a plan
 - Administrative costs (\$3,000 - \$5000 per year)
 - Employee salary deferrals required
 - Needs to be part of employee retention plan

Cash Balance Plan Design

- Growing businesses generate excess cash flow
- These business owners are extremely sensitive to the “bite” of Uncle Sam
- For these individuals a Cash Balance Plan is ideal
- Cash Balance Plan is coordinated with 401(k)
- Allows them to create a “lump sum pension” option
- Allows for MASSIVE additional tax deferral
 - Age 40 = \$82K, age 50 = \$141K, age 60 = \$241K
- Plan design is critical:
 - Administrative costs (\$3,000 - \$5000 per year)
 - Employee salary deferrals required
 - Needs to be part of employee retention plan

How To Invest / Investment Fundamentals

- Rule #1 – You cannot beat the market
- Rule #2 – You need to have an “Investment Policy Statement”. This includes:
 - Your time horizon
 - Contribution and withdrawal assumptions
 - Equities versus fixed income allocation
 - Asset class allocation
 - Investment tools you will used
- Rule #3 – You are your biggest obstacle!

Summary / Actions

- Your business is your most valuable asset:
 - ACTION #1 – Start investing in your business
- You need to quit working “in” your business and start working “on” your business
 - ACTION #2 - Make this shift in mindset now. Waiting is pointless
- Your business value increases when you implement processes
 - ACTION #3 - Put one process in place each month
- Eventually you will step away from your business
 - ACTION #4 - Start putting a succession plan in place now
- There are multiple alternatives to fund your retirement
 - ACTION #5 - Review defined contribution and defined benefit alternatives and implement appropriate plan this year

ANY FINAL QUESTIONS?

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