

Your Greatest Financial Concern

I don't presume to know what is important to you but I do listen to what my clients say is important to them and usually their greatest financial concern is preparing for retirement. A recent consumer survey by the College for Financial Planning Board listed the top 10 reasons people begin financial planning and the number 1 reason by a long shot is "Building a retirement fund". I provide financial planning, investment management and business consulting to small business owners in Santa Cruz County and most of my clients had some type of retirement plan before they ever came through my door. More often than not, the retirement plans that my clients had were neglected, under funded or inappropriate. What they did not have was a plan or strategy for meeting their retirement income goals.

If you are at all like me (and most small business owners I know) you are so caught up in the day to day realities of running your business that you seldom set aside time for longer term planning. That may be okay for a while but sooner or later you need to set aside time to think about your exit strategy. So take a few minutes right now and ask yourself the following:

Q: At what age do you want to retire?

The correct answer is not your current age but it is the age at which you reasonably expect to be able to retire.

Q: How much income will you need at retirement?

As a rule of thumb you might want to start with the amount your family currently spends on a monthly basis.

Q: What sources of income will you have at retirement?

I don't plan on receiving any income from Social Security and if you are under age 55 it is probably a safe bet that you won't get much either.

Q: How much annual income can you expect to receive from these sources?

The maximum sustainable withdrawal rate from any pool of invested money is approximately 4% so unless you have a guaranteed stream of income I would assume a 4% rate of withdrawal.

Q: Will the retirement income sources you have named be adequate to meet your needs?

If you did a quick calculation and you came up short, don't fret because you can always work longer or part-time during retirement.

Q: If not, what is the best way to make up the shortfall?

The simple answer is to save more starting today. If you are not in the habit of saving a percentage of your monthly income you should begin doing so right away, there is no way to make up for lost time but better that you start today than not at all.

Q: If you are considering selling your business to provide you with retirement income do you know what your business is currently worth?

Whatever you think your business is worth, you are probably wrong. Just like real estate, there are comparables and formulas that you can use to help determine the value of your business. A little bit of research can be a big help.

Q: What are the primary determinants of your business's value and what can you do to increase the value of your business?

In real estate it is LOCATION, LOCATION, LOCATION but with most small business it is SALES, SALES, SALES. Fixed costs generally don't increase with incremental increases in revenue so unless you make a deliberate choice to reduce your profits to increase sales then your annual revenue will most likely be the primary determinant of your businesses value.

If after you asked yourself these questions you begin to withdraw into a state of hopelessness and despair don't give up. But don't procrastinate either. Just ask for help.

After working with small business owners over the past 20 years I have never had to say, "I'm sorry you're going to need to continue working until the day you die." What most of the business owners I have consulted with needed was someone that they can trust; to ask them the right questions, help them find the right answers and encourage them to take action.

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