

# Building a Business Is Like Being a Parent

Building a business is kind of like being a parent. You foster it through various stages of growth, including some rocky times, and help it stand on its own. Eventually, you may rely on it to carry on your legacy and take care of you financially. A good plan helps ensure the orderly transfer of a business to the next generation while providing you with retirement income or a nest egg to secure your future.

## SUCCESSION PLANNING

The first step in a succession plan is to figure out what you want for and from your business in the long term.

## INTERNAL SUCCESSION PLAN

For an internal succession plan, start about 10 years ahead of your anticipated retirement. The biggest challenges to internal succession are identifying the successor and developing that person's skills so they can carry on the business.

## SELLING THE BUSINESS

If you plan to sell the business, starting five years prior to retirement is probably sufficient. You need to get the financial books in order and make sure you have the appropriate staffing.

## SELLING A PORTION OF THE BUSINESS

Another choice is to start by selling a portion, perhaps 10 percent or 20 percent, of shares to the potential successor, then selling more over time until the new owner owns the majority. Keeping some ownership can provide you with dividends to help fund your retirement.

## ENDING THE BUSINESS

If your business ends when you retire, and it isn't a saleable asset, then you need a cessation plan. This plan is simple—among other things, it involves collecting all accounts receivable, settling all accounts payable and other debts, notifying employees and creditors, selling inventory and assets, and filing final tax returns.

## DON'T IGNORE RETIREMENT SAVINGS

Start with the end in mind. Understand the prospects and limitations of your business including when and how you'll add to your retirement savings. Despite the best business plan, it is too easy to assume that your business is your retirement plan—and that could be a very costly mistake.

Understand your own needs for financial comfort, as well as your investment portfolio's payout rate. This is where a financial planner can lend value to an entrepreneur.

## RETIREMENT SAVINGS OPTIONS

**Solo 401(k).** You are the employee and employer, so so you can add \$19,000 in contributions (\$25,000 if age 50 or over) and up to 25 percent (to a maximum of \$56,000) of additional self-employment income in 2019. If you're an entrepreneur with no employees, you can include your spouse.

**SEP IRA.** You can contribute as much as 25 percent of your net self-employment income, up to \$56,000.

**(SIMPLE) IRA.** Similar to the Solo 401(k), some contributions are considered, for tax purposes, to be from the employer and some from the employee.

**DEFINED BENEFIT PLAN.** A traditional pension in which employees expect a fixed and pre-determined benefit at retirement, these plans are designed for high-cash flow businesses with consistent revenues.

**Talk to a financial advisor to help determine which retirement vehicle is right for you.**

