

Four Buckets for Financial Planning

WHAT EVERY BUSINESS OWNER SHOULD KNOW WHEN PLANNING FOR THE FUTURE



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If you're a business owner, it's especially important to start thinking about your long-term financial goals at an early age. As you near retirement, it can be easy to get wrapped up in the details of running your business and lose sight of the ultimate goal – to monetize your life's work in order to support yourself in retirement. But if you don't make a plan today, you may find it difficult to successfully transition to retirement.

As we work with business owners to prepare for retirement, we typically recommend structuring their investments into four buckets.

Bucket #1 – Business sale

For many business owners, the company represents their largest asset. If the majority of your net worth is tied up in your company, it's important to sell it for the highest price possible while minimizing your income taxes. The cash from the sale should be invested wisely in a diversified portfolio based on your risk tolerance, retirement goals, life expectancy, etc. Your financial advisor can help invest your assets so they are working as hard for you as possible.

Bucket #2 – Retirement accounts

Retirement accounts, such as 401(k)s, SEP plans, IRAs and Simple IRAs, provide a tax-deductible way to save for retirement and diversify your assets away from your company. If you invested \$1,000 into one of these accounts while you were working, and you are in the 35% tax bracket, that \$1,000 investment saved you from paying an additional \$350 in taxes when invested in a qualified account.

As you near retirement, your financial advisor can help you implement a distribution strategy to access these retirement assets in a tax-efficient manner.

Bucket #3 – Personal assets

During your working years, it's wise to accumulate assets that are not related to the business. These assets can grow over time and contribute to your personal net worth and retirement plan. Consider opening an investment account to purchase stocks and bonds, or invest in tangible assets such as real estate.

Also consider holding liquid assets that you can access if your business needs a capital infusion at some point in the future. Sometimes, it makes more sense to use personal assets rather than taking a bank loan or dipping into your company's line of credit.

Your financial advisor can identify investment opportunities and help ensure your personal assets are working alongside your retirement savings to fund your desired lifestyle in retirement.

Bucket #4 – Business real estate

Many business owners own the real estate in which their business is located and continue to do so after they have retired. If you continue to own business real estate following the sale of your business, you have an opportunity to generate income in retirement by leasing the property to the new business owner. We typically recommend holding the real estate in a separate limited liability company and charging a fair rent, which can enhance your monthly income stream.

Leasing real estate can also be a great way to grow your long-term assets as the mortgage is paid down and the value of the real estate increases over time.

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At Castle Valuation, we specialize in helping business owners sell their businesses and transition smoothly into retirement. As a division of Creative Planning, a nationally recognized wealth advisory firm, we are supported by a team of credentialed, educated, experienced and action-oriented advisors, including CERTIFIED FINANCIAL PLANNER™ practitioners, certified public accountants, insurance specialists, attorneys and other professionals dedicated to helping you achieve your goals. We work together to help ensure all aspects of your business and personal finances are well cared for.

If you'd like help with succession/exit planning for your business, or for any other financial concerns, please [schedule a call](#).

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