

Retirement – What Is Your Number?



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Tips to Help Business Owners Prepare for Retirement

Two of the most common questions clients ask our firm leading up to retirement is, “Will I have enough income in retirement?” and, “How do I protect my net worth?” While generating a monthly income in retirement is a concern for most people, it’s especially challenging for business owners who have spent a lifetime reinvesting their own profits back into their businesses.

Often times, a business owner will have the majority of his or her net worth wrapped up in the stock of an illiquid family-held business and business-related real estate. While it’s true that this strategy has the potential to pay off significantly when the owner sells out at retirement, it can make it difficult to prepare for retirement.

Working with a qualified financial advisor, the question you should discuss is, “What’s my retirement number?” In other words, what is the amount of monthly income and net worth you will likely need in retirement after giving up control of your company?

Four Buckets of Net Worth for Business Owners

When estimating your retirement number, the first step is to identify the amount of assets invested in each of the following four buckets.

1. **The business**
2. **Business real estate**
3. **401(k) and IRA plans**
4. **Personal assets**

Many business owners have the majority of their assets wrapped up in buckets 1 and 2, which leaves few assets in the retirement savings and personal assets buckets. Before retiring, you should work on diversifying your assets in more than one or two buckets.

Diversify Your Assets

As you work to diversify your assets, consider following the steps below.

Step #1 – Improve profitability

In the three to five years leading up to retirement, it's important to work on increasing your company's value. This is especially important if you have most of your assets wrapped up in your company. The higher your selling price, the more money you will have for retirement.

Step #2 – Estimate your after-tax proceeds

One to two years before selling your company, work with your team of attorneys, accounts and financial advisors to estimate the value of your business and the taxes you will likely owe. This will provide you with an idea of your after-tax proceeds. You can use this number to begin gaining an understanding of whether or not you will have enough to retire on.

Step #3 – Estimate your retirement income

Using the amount of your estimated after-tax proceeds, estimate your potential monthly income in retirement, including all potential income sources. Once you have sold your company, you will no longer receive a salary, bonus or company benefits, so you must rely on your personal net worth to cover your monthly income needs. This is why it becomes important to have assets invested in buckets 3 and 4, as your retirement savings and personal assets have the potential to greatly enhance your monthly retirement income.

Additional tips

As you work through this process, consider the following tips to help improve your retirement number:

- ◆ If you own the real estate where your business is located, consider negotiating with the new business owner to sign a triple net lease, as the monthly lease payments can provide additional retirement income.
- ◆ Determine if the assets in your qualified retirement accounts are allocated with an eye toward income and asset protection.
- ◆ If you have a personal investment account, make sure you pay close attention to your allocation as you near retirement, because you may want more income and less risk.

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- ◆ Choose your advisory team carefully. Make sure you're working with an independent financial advisor who does not receive commissions. Find a team of professionals who are willing to work together to reduce the annual expenses on your liquid investment accounts and minimize taxes.

After completing this process, you should have a pretty good idea of your retirement number. The next question to consider is, "Will this be enough?" Your financial advisor can help you answer that question in light of your retirement goals and desired lifestyle.

At Castle Valuation, we specialize in helping business owners navigate the sale of their business. 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 determining your retirement number, or for any other financial concerns, please schedule a call.

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