

5

RETIREMENT MISTAKES SMALL-BUSINESS OWNERS MAKE *And Strategies to Address Them*



1 Define Your Retirement Plan

One-third of small-business owners don't have retirement strategies in place.²

Small-business owners are an essential component of America's economy. In the United States, 99.7% of all firms are comprised of small businesses with 500 or fewer employees.¹

Building, running, and growing a company is tough. You have countless responsibilities and too few hours in the day. Often, in the midst of fulfilling your professional priorities, you end up putting your personal financial life on the back burner.

If you have not prepared for your retirement, you are not alone. Many entrepreneurs think growing a business is all they need to retire. However, just having a business does not automatically mean you have a retirement strategy in place. Without a documented strategy—one that goes beyond the hope of simply selling your business or passing it to your family—you could end up pushing back your ability to retire. In one survey, 34% of respondents said that they have no retirement strategy, while 12% have no plans to retire at all. Both of which are likely short-sighted.³

Delaying retirement is not always an option. Life happens, and you may not be able to control when you will retire. For example, you may retire early because of health problems or a disability. In 2020, only 28% of retirees were very confident in their ability to cover medical expenses during retirement.⁴

To help ensure that you can experience retirement on your terms—rather than reacting to what life or the business world throws your way—you need to have a plan.

WHAT TO DO NOW

- Define your ideal retirement. Clarify when you want to retire and what lifestyle you hope to enjoy.
- Determine the actions needed to fill the gaps between your current assets and the income you will need to support your desired retirement.





Have an Exit Strategy

Nearly one-third of U.S. businesses survive to the second generation—and only 12%, to the third.⁵

For many business owners, the idea of selling their company for top dollar or passing it to future generations is a retirement dream. Unfortunately, many entrepreneurs are not doing the work necessary to make their dream a reality. Studies show that 50% of business owners plan to leave their businesses in the next decade. However, fewer than 30% have a business succession plan. One-third of business owners plan on their retirement to begin sometime between their mid-fifties and mid-sixties.^{6,7}

No matter how long you want to work and how much you love your business, a clear exit strategy is necessary to help foster your company's longevity and preserve your financial health. If you want to be able to retire when and how you would like—and have your business last beyond your career—you need an exit strategy.

WHAT TO DO NOW

- Define your ideal exit strategy. Do you want to sell your business? Pass it to the next generation? Find an outside successor?
- Hire a qualified professional to determine the real value of your business as it is today. Depending on how far you are from retirement or exiting, you might need to revisit this valuation in the future.
- Create a strategy—and stick to it. Your exit strategy might require you to hire new people, adjust your services, or implement a number of other changes.



STRATEGY

3

Separate Your Retirement Savings

In one survey, 61% of respondents claimed that preparing for retirement makes them feel stressed.⁸

Trying to build retirement savings while building your business can be tough. With only so many dollars to go around and an endless list of professional expenses, you might rather reinvest in your company. However, even if you are ready to sell your business at retirement, you need to have savings that are completely separate from your business.

Solely relying on the value of your business to carry you into retirement is risky. Not only can industries change, and companies falter, but many baby boomers are selling their businesses right now, which could potentially make a sale tougher in some markets.

Would you and your family be able to enjoy a comfortable retirement without your current income or profits from selling your business? If the answer is no, now is the time to start building your savings.

WHAT TO DO NOW

- Balance your personal and professional finances. When deciding how to invest your available assets or what salary to draw, make sure you focus on addressing both sides of your financial life.
- Explore available retirement-savings tools with your financial professional. With the passage of the SECURE Act, many rules regarding retirement plans have changed, making this a great time to evaluate your strategy.
- Review your budget and create a disciplined savings approach. Identify ways you might be able to trim your current expenses or save on your tax liabilities. Also, establish a habit of regularly contributing to your personal retirement savings.

Get Sufficient Life Insurance Coverage

In an effort to save money, some small-business owners don't carry any insurance at all.¹⁰

Most people are familiar with life insurance, but the role this product plays for small-business owners often is more complex than for the typical individual. Of course, sufficient life insurance can help protect your family's financial security if you were to pass away. As a business owner though, you could have an extra liability: business collateral. If you use personal assets as collateral to take out loans to support your business, your family members may be on the hook for that debt if you pass away. Life insurance can provide an added layer of protection for your loved ones.¹¹

Keep in mind that this article is for informational purposes only. It's not a replacement for real-life advice. You should discuss any tax, legal, or financial matters with the appropriate professional.

WHAT TO DO NOW

- Analyze your current life insurance coverage. Do you have the right tools? Do you have unrecognized gaps?
- Address your family's life insurance needs. Calculate your total debts and expenses to find the amount your family would need if you were to pass away prematurely.
- Uncover the opportunities life insurance may bring to your business. Work with a professional to determine how life insurance might be able to help support both your business needs and retirement goals.

*Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.



5 STRATEGY

Hire Outside Support

Over 60% of small-business owners report that regulations negatively impact their growth.¹²

Running a successful small business requires a number of skills—from delivering your product or service to managing employees and growth. Just because you shoulder a vast number of responsibilities though, doesn't mean you have to do it all alone.

Hiring outside help not only gives you access to experienced professionals who can apply their experience to your specific needs, but it can also save you significant time. In a 2019 survey of almost 2,285 growth-oriented small businesses, over 60% expressed challenges with understanding and managing laws and government regulations.¹³

In fact, they spent an average of 6 hours a week just dealing with regulation and tax compliance.¹⁴

As a business owner with both personal and professional financial strategies you need to stay on top of regulatory and tax law changes. Professional support can help.

WHAT TO DO NOW

- Determine what professional support you need. You likely should consider hiring a tax professional, attorney, and financial professional. Your unique circumstances might require additional support.
- Ask your professionals to work together. Aligning your financial life requires an understanding of its many facets. Make sure your support team has a clear picture of how your various pieces intertwine.
- Embrace the benefits of working with outside professionals. Choose highly-qualified, knowledgeable professionals and let them take some of the weight off your shoulders.



HOW WE CAN HELP

Balancing your personal and professional priorities while launching and growing a business is challenging. Consider the tips in this report as a helpful overview of what you might need to address for your retirement.

The truth is, retirement success is just a buzz word. What you imagine for retirement – and your plan to get there – is as unique as you are. There is nothing cookie-cutter about retirement planning. You may have questions that you can't even put into words, and knowing that the decisions you make could impact your family for generations can be overwhelming.

We're here to help. The Cornerstone Experience™, our multi-step financial-planning process, helps you answer questions like, "When can I retire?" and "Am I invested appropriately?" We will work together to completely understand your situation and your needs, make decisions, and finally build a plan so you can take care of the people you love, enjoy the activities that are important to you, and contribute to the causes you care about.

Call 605-357-8553 today to schedule an appointment with a Wealth Advisor, or if you have any questions about this information.

Sincerely,

Your Cornerstone Team



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These rankings and awards were won by Gordon Wollman, Founder & CEO, CFS | Wealth Advisor, RJFS.



The FT 400 was developed in collaboration with Ignites Research, a subsidiary of the FT that provides specialized content on asset management. To qualify for the list, advisers had to have 10 years of experience and at least \$300 million in assets under management (AUM) and no more than 60% of the AUM with institutional clients. The FT reaches out to some of the largest brokerages in the U.S. and asks them to provide a list of advisers who meet the minimum criteria outlined above. These advisers are then invited to apply for the ranking. Only advisers who submit an online application can be considered for the ranking. In 2019, roughly 960 applications were received and 400 were selected to the final list (41.7%). The 400 qualified advisers were then scored on six attributes: AUM, AUM growth rate, compliance record, years of experience, industry certifications, and online accessibility. AUM is the top factor, accounting for roughly 60-70 percent of the applicant's score. Additionally, to provide a diversity of advisers, the FT placed a cap on the number of advisers from any one state that's roughly correlated to the distribution of millionaires across the U.S.

The Forbes ranking of Best-in-State Wealth Advisors, developed by SHOOK Research, is based on an algorithm of qualitative and quantitative data. Those advisers that are considered have a minimum of 7 years of experience, and the algorithm weighs factors like revenue trends, AUM, compliance records, industry experience and those that encompass best practices in their practices and approach to working with clients. Out of approximately 32,000 advisers nominated by their firms, 4,000 received the award.

Barron's is a registered trademark of Dow Jones & Company, L.P. All rights reserved. The rankings are based on data provided by over 4,000 individual advisers and their firms and include qualitative and quantitative criteria. Data points that relate to quality of practice include professionals with a minimum of 7 years financial services experience, acceptable compliance records (no criminal U4 issues), client retention reports, charitable and philanthropic work, quality of practice, designations held, offering services beyond investments offered including estates and trusts, and more. Financial Advisers are quantitatively rated based on varying types of revenues produced and assets under management by the financial professional, with weightings associated for each.

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Raymond James Chairman's Council Membership is based on prior fiscal year production; requalification is required annually.

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