

# Prepare, Plan, Protect: Wealth planning tips for business owners

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**Business owners often juggle a multitude of concerns/tasks, such as marketing, HR, bookkeeping, customer service and inventory management. As the company grows, so does the staff and leadership team as owners begin to delegate and spend more time on managing versus executing.**

**In addition to the company's growth, owners must also focus on growing their personal wealth. Too often, we see owners so focused on their businesses that they put off long-term planning for themselves, which can have significant consequences for their families and their company, especially in the event of unforeseen circumstances.**

**Personal wealth planning is critical in all phases of your career and all stages of your business. Just as you are identifying short and long-term growth goals and strategies for the company, it is important to identify short and long-term personal financial goals and plans for you and your family. As there are also numerous risks to company ownership, we'd like to suggest a formula you can use to protect your financial future. Prepare. Plan. Protect.**

## Prepare

**Separate business and personal finances — Although your personal financial life is intertwined with your business, keep your finances separate and plan for each accordingly.**

**Build an emergency fund — On the personal side, we recommend that owners keep six months of personal expenses set aside (maybe more if you're in the start-up phase).**

- Cash flow on the business side may take a downturn; you may not be able to take your typical distributions, and you will want to have enough in reserve to protect yourself and maintain your personal cash flow needs. We recommend using accounts where you can earn some additional interest — CDs, high-yield savings accounts, or money markets may be a good place to set aside this cash.
- Build a reserve for your company. In addition to maintaining appropriate cash reserves for your business, consider a reserve line of credit. You don't have to borrow against it if you don't need it, but it acts as a backstop if the company's performance is down or if there are timing issues related to your business capital.

## Plan

**Prepare and manage your personal finances (income statement, cash flow projections, and balance sheets) just as you would for your business — Know what you need on the personal side so you know how much**

**of your own capital you can add to the business if needed for additional growth. Many business owners want to reinvest all their money into the business, but this may be riskier than intended. Make sure to pay yourself and diversify some assets away from the business, focusing on your personal long-term financial goals.**

- Consider whether you need to add capital to the business or if the company may need capital infusions from outside investors.

**Think long term — don't forget about your own retirement planning. When you start and grow your company you may not yet be thinking about your eventual exit, but you need to. Will you phase out of the business over time? Will you have a child or children who are interested in taking over? Will you sell the company? You may or may not come into a substantial financial windfall with an eventual sale, so plan accordingly. Relying solely on your business (or future sale of the business) as your retirement plan brings with it concentrated risk. With wealth planning, you focus on risk management and how to diversify those risks.**

- There are several retirement plan options available to small business owners (and self-employed individuals). You will want to talk with your team of advisors to determine what option makes the most sense for you.

## **Protect**

**Plan for the unexpected and protect your family and your assets — What happens to your business if you become disabled or die unexpectedly? If the bulk of your assets are tied up in the company, the business may need to be sold quickly to help provide for your family, pay off debt, pay medical expenses, taxes, or estate settlement costs. Consider additional planning to help mitigate these risks:**

- **Insurance planning.** A quick sale may mean the business sells for much less than it may be worth. If you have a partner in the business, how do you protect each other against these unforeseen events? In addition to disability and death, you must consider liability insurance to protect your assets and the company. Do you need additional coverage? What about protecting the business if there is a disaster, and you need to cover business expenses/payroll?
- **Estate planning.** Estate planning allows you to clearly define how you would like your assets managed in the event of your incapacity or death. How do you protect your assets? How do you provide for your family? How do you protect the company?
- **Business succession planning.** What is your succession plan? Do you have charitable intentions? There are many techniques and tools available with advanced planning before the sale of a business that can leave you and your family with more after-tax dollars at your disposal.
- **Build a team of advisors** — Surround yourself with a team of experts (financial advisor, CPA, attorneys, insurance agent, etc.) who work together to help you prepare, plan, and protect. Your business and your

personal finances are inextricably linked. Work with a team to prepare your plan. Wealth planning is dynamic — don't set it and forget it. Lives change, businesses change. Your team will work with you year in and year out to ensure you, your family, and your business are all on target to meet your short and long-term financial needs, wants, and goals. They can help guide you and your family if you need to pivot and update your plans accordingly.

**Waiting until you are ready to retire or sell your business is too late. Opportunities will have passed you by. Wealth planning incorporates investment management, cash flow planning, risk management strategies, estate planning, asset protection, and much more. As your business and your net worth grow, so too do the complexities of wealth planning. A financial advisor is an excellent resource to quarterback your team and design the best strategies for you and your business.**

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