Creating a financial plan

Owners need to prepare themselves and family for life after business

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A personal financial plan, which serves as a road map for living life today and in retirement, is essential for everyone to have, especially a business owner.

"It's usually the case that business owners are so busy working on the short- and long-term plan for their business that they overlook anything not directly related to that pursuit," says Brian Hirko, vice president, program manager and senior investment adviser at FFL Investment Services. "Personal finance takes a backseat, and that can become an issue."

Financial plans not only set up the business owner for retirement, but can also serve as a road map for family and trusted advisers should there be an event like a death or disability that happens to the owner.

"When such devastating events occur, it is important to have a plan in place to help guide family or advisers on the financial plan," says Anne E. Bingham, senior vice president and chief private banking officer at First Federal Lakewood.

Smart Business spoke with Hirko and Bingham about personal financial plans and what goes into creating them.

What is a financial plan?

AB: A personal financial statement is a good starting point. It's a snapshot of a person's financial history at a specific point in time, listing bank accounts, investments, real estate, mortgages and business assets. It shows a person's net worth and gives owners a sense of where they are financially today so a plan can be created — a financial plan — to get them where they want to be to afford the lifestyle they want after retirement.

How do business owners' businesses manifest in their financial plans?

BH: The business will likely show up as the main source of income or debt for the owner. When an owner is planning for the future and considering their business, the age of the owner and stage of life should be considered. Someone who is 65 and tired of working might want to get a formal business valuation in preparation for a sale or transfer of ownership. Younger owners who aren't yet ready to exit would be better served by an informal valuation. It's less expensive and time consuming, but provides a reliable sense of the company's value, which can be used to form the rest of the financial plan.

When should financial plans be reviewed?

BH: A financial plan should be a living, breathing document, not something that's created, then put on a shelf. It's ideal to review the financial plan every couple of years, regardless of what events do or don't transpire. Events such as a health problem, birth, death or divorce are all reasons to revisit the plan.

These plans can be managed in software that enables owners to quickly and easily update information and make different assumptions based on those inputs to see how changes affect their ability to reach their objectives.

Who should business owners involve in the creation of their financial plan?

AB: The first person to involve should be the person you typically consult on financial matters. This could be a spouse, partner, child, accountant, etc., because it's not just a discussion about what happens to the business, but how personal financial goals will be reached together. And owners should also include any business partners.

A wealth adviser will typically be the guide of the financial plan. He or she might bring in other professionals, such as a private banker or insurance agent, as needed. An attorney and accountant will get involved later when it comes time to draft and execute any necessary documents.

A financial plan is not just a document, it's a road map for life after business. However, very few people take the time to figure out how they're going to spend the 20 to 25 years of life after retirement. Meet with a financial planning team and start planning today. ●