

Financial Planning for Small Businesses and Self-Employed Individuals

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Who We Are

- ▶ Academy is an independent investment advisory firm founded in Waco in 1987.
- ▶ Our focus: Matching our clients' financial resources to their commitments through:
 - ▶ Investment Management
 - ▶ Financial Planning
- ▶ Who do we work with?
 - ▶ Individuals, families, business owners, foundations, endowments, and trusts.

Areas of Financial Planning to Cover:

- ▶ Retirement Planning
 - ▶ Investment Planning
 - ▶ Insurance
 - ▶ Succession/Estate Planning
- ▶ Each of these areas are important in general but offer many important benefits to planning for **small businesses and those self-employed.**

Retirement Planning: Saving for You AND your Employees

- ▶ Many business owners prioritize operations and processes over retirement planning for themselves as well as employees.
- ▶ Necessary during startup and growth period.
- ▶ However, this mindset needs to shift once consistent profitability and earnings potential is reached.
- ▶ Well-constructed retirement plan allows businesses to:
 - ▶ Offer an attractive benefit to employees (retain talent).
 - ▶ Begin a habit of savings for owners/employees beyond salary/bonuses.
 - ▶ Allow for business owners to pursue more **personal planning** opportunities.
 - ▶ Lower business and employee tax liability through deferring compensation.

Retirement Plan Design Considerations

- ▶ Retirement plan is designed based on:
 - ▶ Number of employees
 - ▶ Average age/compensation of employees
 - ▶ Savings goals for owner(s)
 - ▶ Employees interest in contributing.
 - ▶ Costs of implementing and administering the plan.

Retirement Plan Options – Business with Employees

- ▶ Based on factors from previous slide, appropriate options may include:
- ▶ **401(k) Plan**
 - ▶ Max. contrib. = \$20,500 (50+ = \$27,000)
- ▶ **Profit Sharing Plan**
- ▶ **SIMPLE IRA**
 - ▶ Max. contrib. = \$14,000 (50+ = \$17,000)
- ▶ Any of these plans allow for employer and employee contributions

Retirement Plan Options: Self-Employed

- ▶ Traditional IRA
 - ▶ Roth IRA
 - ▶ Solo 401(k)
 - ▶ SEP IRA
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- ▶ Various investment strategies can be used with any of these plans.

Savings & Investments – Retained Profits

- ▶ Once the business creates consistent profits, consider ways to save and prudently invest **excess retained earnings**.
- ▶ AFTER:
 - ▶ Any immediate inventory or equipment needs are met.
 - ▶ Remaining debt, if any, is evaluated.
 - ▶ Marketing needs
 - ▶ Personnel needs
 - ▶ Cash flow planning is done to ensure proper balance of income and expenses.

Retained Profits: How to Invest

- ▶ Common “Default” Scenario: Checking and Savings Accounts.
- ▶ Offers liquidity but earns very little interest and growth compared to other alternatives.
- ▶ A corporate investment account may be a better fit for a business with excess profits.
 - ▶ Still allows for liquidity with a better opportunity for growth.
- ▶ Types of investment typically held:
 - ▶ Stocks
 - ▶ Bonds
 - ▶ Mutual funds
 - ▶ Money Markets
 - ▶ Treasury Securities

Retained Profits: How to Invest

- ▶ **When considering an investment portfolio as a business, consider the following:**
 - ▶ Time horizon for investment
 - ▶ Risk tolerance
 - ▶ Liquidity needs
 - ▶ Tax situation
 - ▶ Goals of your business
- ▶ **Portfolio Construction:**
 - ▶ Proper balance
 - ▶ Diversification among different asset classes
 - ▶ Active management

Insurance Considerations For Small Businesses

- ▶ Often overlooked:
 - ▶ **Life Insurance**
 - ▶ Protection
 - ▶ Succession Planning

- ▶ Academy does not provide insurance products***

Life Insurance for Small Businesses

- ▶ Crucial for continuation of business in the event of owner's death:
 - ▶ Ensures smooth transition of business and assets to other partner(s).
 - ▶ Prevents disruption of cashflow.
 - ▶ Prevents a liquidity event with other assets.
 - ▶ Protects your family from business-related debts.

Life Insurance for Small Businesses

▶ Buy-Sell Agreement:

- ▶ Allows business partner(s) to buy out your share of the business should you die or become incapacitated.
- ▶ Critical component of succession planning
 - ▶ Policy covers the life of each partner(s)
 - ▶ Entity Buy-Sell Agreement

▶ Key Man Life Insurance:

- ▶ Covers the financial hit your company would take if it lost a key owner, executive or employee.

Life Insurance Wrap-Up

- ▶ As a business owner, life insurance planning should be a foundation of your financial planning
- ▶ In-depth needs analysis should be done to determine:
 - ▶ Type of insurance (term, permanent, combination)
 - ▶ Specific debt/liabilities covered
 - ▶ Ownership of the policy
 - ▶ Amount of insurance

Use Academy as a Trusted Resource

- ▶ All these items covered should be a necessary part of a business owner's overall financial plan.
- ▶ Fits together with personal financial plan to ensure the best opportunity for a successful business ownership and retirement/transition experience.
- ▶ Ensure that your legacy is built how you want it to be for the next generation.

Thank you for you time!

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