

A Preliminary Financial Needs Analysis

We often discuss the importance of setting a Target Departure Date. Doing so is imperative. Chiseling that Date in stone, however, is not. Don't let an inability to set an "exact" date, prevent you from setting any date at all. Work with your advisors to set a "tentative" date so that they can begin to show you various possible exit paths.

While working on setting a date, you can get started on the second element: making a preliminary analysis of your financial needs. You should retain a financial planning professional to make this analysis. Most of us have been through the exercise of listing assets, and expenses so that our advisor can plug in various growth and inflation assumptions as well as our life expectancies and number of years until retirement. Using these "what if" scenarios, we can estimate the size of our nest eggs.

For business owners planning their exits, this analysis is important.

Many of us simply don't have a lot of assets outside of our companies so this analysis helps us to understand how much we depend on reaping a certain amount from the sale or transfer of our companies. It also helps us to quantify our lifestyle needs once we are no longer running our companies.

The goal of this analysis is to make sure that you can achieve your financial objective in a manner consistent with your other objectives (leaving your business when you want to the successor you choose). For many owners, the financial objective is not only of primary importance, it can be the most difficult to meet. The financial needs analysis is critical in quantifying your financial objective. To reiterate this analysis takes into account, as of your Target Departure Date (not today), the following:

- Your retirement income needs based on current lifestyle expenditures. (You'll need to develop that personal budget you've resolved to develop . . . for the past 15 years!) The experience of many former owners is that they spend just as much, or more, after they leave the business than today
- Inflation assumptions
- Income producing capability of current investments
- Investment growth assumptions, on current and future investments
- Number of years to retirement
- Life expectancies (the owner and his/her spouse)



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This analysis is critical because it not only establishes what you want, but it also reveals to you and your advisor team exactly how much money you need to receive from the transfer of your business. For example, if the amount of income producing assets needed to meet your retirement income needs exceeds existing non-business assets by \$3,000,000, then you know that the transfer of your business must generate at least \$3,000,000 net after taxes.

You then know precisely what you must receive from the business transfer. For many owners that means they can't leave the business until the business sale can net that minimum dollar amount. In short, a financial needs analysis establishes the baseline dollar amount that you must receive from your business before you can leave it in style.

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