

How Much Money do You Need?

When owners begin to create their exit plans, they need to answer three critical questions.

1. When do you want to leave your company?
2. Who do you want to succeed you?
3. How much money do you need when you leave?

The answers to these questions fix a destination that all exit planning activities will work to reach.

Today, we are going to talk about an answer to the third that question that we hear from many owners: "I can live on a lot less income once I leave the business."

Maybe you can. Maybe you can't. Many owners assume that they can because they look back at their income needs over the years and assume that their needs will decrease—the children are gone, the house is paid off, etc.

Circumstances change but it is just as likely that your needs may increase. Tax rates and health care costs will increase. Few of us will enjoy perfect health until we die. The needs of our loved ones change as well. While we launch our children into the world, we often are called upon to meet the needs of aging parents.

None of us can predict how the world will affect our investment portfolios. Rising energy costs, new technologies, natural disasters, civil unrest, wars and terrorism can all play havoc with the most conservative portfolio.

To those who count on rent from the building they owned and plan to lease back to the buyer of their businesses, we ask, "What happens if the new owner can no longer pay?"

We are not soothsayers of doom and destruction but it would be irresponsible not to point out that active business owners are able to adapt to change more easily because they still control their source of income. Owners enjoy greater flexibility because their actions (working more, laying off personnel, reducing business expenses) directly affect their income. Once retired and dependent on investment income, your range of options is limited and those actions you can take often involve increasing your risk.



**Michael Wildeveld, CEPA, M&AMI,
CM&AP, CM&AA, CBI, CBB**
michaelw@veldma.com

Veld Mergers & Acquisitions
www.veldma.com
1 Park Plaza, 600
Irvine, CA 92614
[310-652-8066](tel:310-652-8066)

A solution?

One is to acquire considerably more assets than you think you need. Add this enhanced asset amount to the amount of money you want to receive when you leave your company. Have a large margin of error. Of course this is easier said than done.

To help accomplish this, you may need to stay in your company longer than you planned so you can grow business value or accumulate more money outside of the business and in your retirement account.

Another solution is to engage an experienced financial professional who can help you (1) analyze what you are spending now, (2) understand what your likely needs and wants are, and (3) anticipate future needs and sources and amounts of income. These professionals have access to large amounts of research and historical data. While no one can tell you how your investments may perform in the future, or what to expect on the world scene, they can help you assess risk.

Expert financial planning not only helps you assess risk but also helps you to determine the appropriate response to mitigate that risk—whether it be to build more value before you exit, delay your exit or realistically appraise the possibility that your lifestyle may need to be more modest.

Is it not worth your time, and perhaps some money, to help ascertain that your financial goals are realistic and that you can weather the unforeseen and unexpected? Because in today's world, if it's one thing we can be certain of – your circumstances and everyone else's – will change.

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