

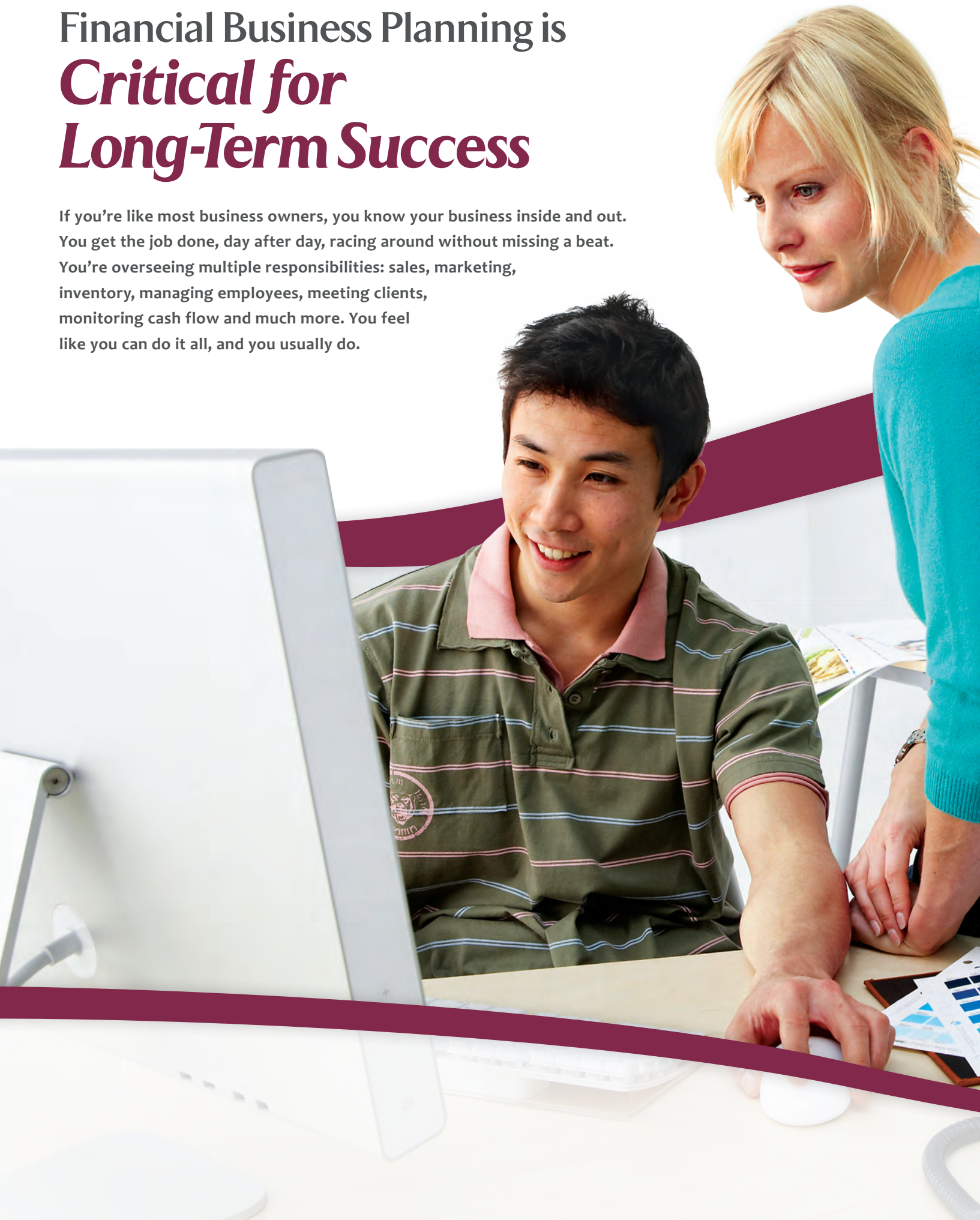
Financial Solutions for the *Life* of your *Business*



**Business
Owners**

Financial Business Planning is *Critical for Long-Term Success*

If you're like most business owners, you know your business inside and out. You get the job done, day after day, racing around without missing a beat. You're overseeing multiple responsibilities: sales, marketing, inventory, managing employees, meeting clients, monitoring cash flow and much more. You feel like you can do it all, and you usually do.





Your business can change in an instant.

In your daily rush, it's easy to put off crucial, long-term financial planning that could help you and your business. Before you know it, you're five or ten years down the road with key financial planning areas still unaddressed. If the unexpected happens, your business could change in an instant. That's why it's important to address those issues now rather than later.

If you're like most business owners, you're an expert within your particular industry. But you probably don't have the background or time to identify and address some of the financial issues that can help ensure long-term success.

Have you considered these four critical and often overlooked areas?

Succession Planning: Many people think of succession when getting ready to retire. But, there are several scenarios where it may not be their choice, such as when disability, divorce, or death of a business partner occurs. What then?

Retirement Planning: If your business factors into your retirement plan, you need to consider the unique challenges that a business brings to retirement – like ensuring you have a reliable income stream and if necessary, a buyer for your company.

Estate Planning: Push aside those images of butlers and private jets; estate planning is not just for the super wealthy. It's imperative for business owners who tend to have most of their net worth tied to the business. Not having a plan can dramatically impact the future of your family and business.

Key Employee Planning: It's important to recognize and reward vital staff members who help you keep the business running smoothly, allowing you more freedom to focus on business growth. Taking the right steps now could help keep you from losing a critical employee to a competitor in the future.

Lack of an exit strategy can *Ruin Your Business*

When you think of succession planning, thoughts of passing the business on at retirement may come to mind. But what if something unexpected happens before then and you are not able to run the business – even temporarily?

It's critical to have a strategy with a contingency plan that spells out what you want to happen if you die prematurely, become disabled, if you or a business partner gets divorced, loses a professional license, etc.

3 out of every 10 Americans in the workforce will become disabled before they retire.¹

An accident or illness will force **1 in 5** to miss work for at least a year before they turn 65.²

Many business owners have not put a plan into place that will enable them to pass the business on to a son, daughter or valued employee, while also providing for their spouse. It's probably not a coincidence that only 35% of small business owners have a formal succession plan³ and only about 30% of small businesses survive the transition to a second generation.⁴

Staying in Business

Your financial professional can help you prepare for whatever lies ahead with a variety of solutions geared to your needs and goals that can be implemented cost-effectively.

What would happen if:

- You unexpectedly become disabled, you need your current level of income to live on, and you also want to pass the business on to your children?
- Your partner gets divorced and has to liquidate his/her share of the business, but you don't have the funding to buy him/her out?
- Your daughter is going to take over the business, but you also want to provide for your two other children not involved in the business?



Don't put all your *Eggs in one Basket.*

If you're like most business owners, you're counting on your business to fund your retirement. So you put a lot of the profits back into the business. But in reality, you may actually be short-changing your retirement in order to have a thriving business.



About **one-third** of small business owners have no pension or retirement savings and no idea how they will retire.⁵

This is why it's especially important for you to have a formal plan that addresses your individual retirement needs. For example, if you are planning to sell your business, do you know how much it is worth? And, will you find a buyer who can pay that price at the time when you're ready to retire?

■ **Planning for Retirement**

When you consider that only 3% of start-up entrepreneurs plan to acquire an existing business,⁶ it's a good idea to put a contingency plan in place, even if retirement is still many years away. Fortunately, you have a variety of retirement options available. Your financial professional can introduce you to multiple retirement strategies and help you develop the plan that works best for you and your business.

■ **Sobering Scenarios:**

- Your plan was to sell the business to fund your retirement but now you can't find a buyer. This means you'll probably have to keep working and delay retirement until you sell the business.
- You want to pass the business down to your children, but didn't manage to save enough for retirement. Now you need to determine how to draw enough income for you and them each month.
- Your retirement plan was to sell your share of the business to your partner. But as retirement approaches your partner doesn't have enough cash to buy you out.



A lack of planning impacts *What You Leave Behind.*

You may think estate planning is just for the super wealthy. But having an estate plan is especially important for business owners who often have a significant portion of their assets tied to their business.

45% of a small business owner's net worth is tied up in the business.³

Your death may result in a significant tax liability that comes due within just a few months. In addition, outstanding debts, accounts payable and estate settlement costs may also need to be addressed. These substantial amounts can devastate the business, leading to negative cash flow or possibly insolvency. Even worse, not having enough funds to cover these expenses may cause heirs to sell off the business assets—often times for pennies on the dollar. Along with the demise of the business, your heirs will need to replace the income that was generated by the business. This can be devastating for a spouse and children—not the legacy you want to leave after working so hard to build the business.

Protecting your business and family.

If you don't have an estate plan, you are not alone. Only about 49% of small business owners have an estate plan.⁷ Often times it's simply lack of awareness about liquidity needs and the resulting implications on the business that prevent owners from putting a plan in place. Your financial professional can help ensure that you have a properly structured estate plan that is designed to leave behind the legacy you want to build for your family and your business.

What would happen if:

- You die without an estate plan? Federal and state taxes—plus estate settlement costs may have to be paid within a few months. Will your family have the necessary cash reserves?
- Your spouse needs to continue the business to receive income. What happens if he or she has to sell the business instead to pay Uncle Sam?
- Your partner passes away without an estate plan and now you find yourself in business with his spouse, who knows nothing about the business. What does that mean for the future of the business?





What happens if *Your Most Important Employee Leaves?*

A key employee is someone you rely on, whose skills and business knowledge may be hard to replace. Losing a key employee to death, disability or a competitor can result in a significant financial loss to the business. So it's important to protect your business with incentives that encourage key employees to stay long-term.

Replacing a key employee can cost **150%–250%** of their salary.⁸

Set your business apart with key employee benefit plans.

Often called “executive benefits,” key employee benefits show employees that you value their contributions and want them to be a part of the long-term success of the company. These benefits can help reward and motivate your most critical employee, and also offers a way to distinguish you from the competition.

Your financial professional can help you put employee benefit programs in place that enable you to buy loyalty and retain top talent while providing business flexibility.

Sobering Scenarios:

- Your top salesman quits and takes all his clients with him.
- Your office manager, who has been running the daily operations for the last seven years, decides to leave and start her own business. Now she is your top competitor.
- You've been grooming a valued employee to take over the business when you retire, but he decides to accept an offer from a large corporation that offers a retirement plan.



Help protect your business.

Now that you know about these critical planning areas, don't leave your business to chance. Your financial professional will work with you to understand your business and provide comprehensive solutions designed to meet your future goals.

It's likely that you already rely on a CPA or attorney to help guide your business decisions. A financial professional can add value and expertise by partnering with your team of experts to develop:

- Succession Plans
- Retirement Plans
- Estate Plans
- Key Employee Plans

Every business is different and there is no one-size-fits-all recipe for success. From retirement and pension plans, to a host of tax-advantaged financial solutions, Penn Mutual's financial professionals have the resources and expertise to bring you solutions that fit your business and your long-term goals.

Learn more at
www.pennmutual.com/smallbusiness



THE VALUE OF Working With A Financial Professional

The need for a financial professional has never been greater. Today's financial climate is more complex than ever before, with a wide variety of products and resources available to you. To help get you on track, you will need the help of a financial professional who can build a plan tailored to your unique objectives; guide you in making critical financial decisions for your financial future; and help you achieve your financial goals through all life's stages.

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SOURCES: 1. Source: Social Security Administration, 2007. 2. Source: Life and Health Insurance Foundation for Education, 2005. 3. LIMRA Small Business Owners, 2009. 4. "Don't Let a Weak Succession Plan Become a Wealth Destroyer." National Underwriter, 2007. 5. "Small Business Owners are Unprepared for Retirement" American College, 2012. 6. "Business Creation in the US," Small Business Administration, Office of Advocacy Report, July 2010. 7. LIMRA Business Owners Need More Advice on Their Finances, 2005. 8. Bliss & Associates Inc., Wayne, NJ Consulting Firm, 2012.