

Financial Planning “Plus” For Business Owners



Dave Pullin

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Successful business owners necessarily understand the value of financial planning. Responsible both for their family’s and their business’s finances, most have experienced the benefits of executing a well-crafted plan... and the downsides of having a plan go awry, or worse, of having no plan at all. Still, the idea of financial planning for business owners has evolved over time, so if you happen to be a successful business owner, this article may provide new insights and beneficial ways of approaching financial planning.



Consider, for example, the case of a business owner who we’ll call Brian Jones. Brian founded and runs a successful light manufacturing business in the heart of Portland. Long married to Celia, Brian has a number of interesting “problems” arising directly from his success. First, he has substantial retained earnings within his business parked in low interest money market accounts that he’d like to move into his family’s personal accounts. However, Brian is unsure about how much to take out, where to move it to, and what the tax ramifications might be.

Second, while Brian is satisfied with his employees, he’s still very much the “key man” at the center of actually running the business. Without his accumulated in-depth expertise, a lengthy absence on Brian’s part might be disastrous for the business. And third, Brian and Celia’s son, a recent business school graduate, would very much like to take over the business “one day”...but not quite yet. Brian doesn’t want to rush his son, but he also wants alternative business succession plans put in place.

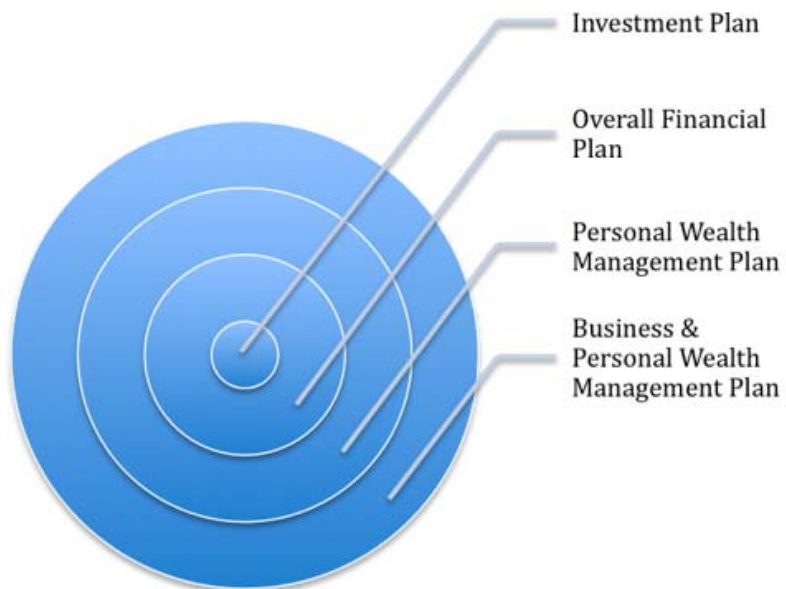
Brian brought up his various concerns with a wealthy friend, who responded: “What you need is a good, comprehensive, financial planner, like the one my wife and I used, someone who can help you see your way through all of this.” Indeed, while Brian’s long-time stockbroker buddy has invested his personal money, they’d never really discussed the big picture, and certainly hadn’t considered the way Brian’s personal needs, along with the needs of his family and the needs of his business, all fit together. “What exactly does this kind of financial planning entail?” Brian asked his friend. “And how is it different from this ‘wealth management’ idea that I’ve been hearing about? And would financial planning include my business?”

From Investment Planning to Financial Planning to Wealth Management

Financial planning as a distinct discipline and profession dates back to 1969, when Loren Dunton—who originated the term “CERTIFIED FINANCIAL PLANNER™—established the Society for Financial Counseling Ethics. Many individuals wanted more than just a stockbroker’s investment recommendations. Instead, they wanted a comprehensive long-term plan that took into account everything from cash flow and taxes to retirement and estate planning. For a financial planner to do his job well, he had to gain a deep understanding of his client’s needs and goals, including investment “risk tolerance” or how much risk the client is willing to take on in exchange for potentially higher returns.

Wealth management represents the latest evolution of financial planning. Best suited for affluent individuals or families, it expands upon financial planning’s purview to include all of the many factors—financial and non-financial, tangible and intangible—that constitute a family’s overall wealth. Wealth management therefore delves deeply into such advanced planning topics as how to best enhance and preserve wealth, how to protect a family’s assets and insure against potential risks, and how to best implement any charitable intentions. Also, while some financial planners help facilitate a good estate plan and supporting documents, wealth managers consider an even wider array of life planning documents, including living wills and medical proxies.

The diagram below illustrates, in a simple way, the relationship between investment plans, financial plans, and wealth management plans. If Brian Jones chooses to work with a financial planner, while an investment plan will certainly be a part of what emerges, an overall financial plan will also include the important additional elements mentioned above. Going a step further, if Brian then chooses to work with a comprehensive wealth manager, he’ll still have an overall financial plan, but it will be set in the context of an even broader wealth management plan that embraces all the forms of wealth mentioned earlier.



Wealth management for business owners is similar—it includes what is found in simple investment plans as well as in comprehensive financial plans—yet it is even broader and more complex. It is broader, of course,

because it focuses both on the personal and the business needs, goals, and dreams of the business owner. And it is more complex in two ways. First, it embraces a range of issues specific to businesses, including challenges for those in owner-occupied buildings, 401(k) and other retirement plans, health plans, and business succession planning. Second, it's more complex because some of these additional issues force the business owner to weigh the needs and interests of his or her own family versus those of employees and customers. Responsible for multiple constituencies, the business owner must understand and make decisions that have legal, regulatory, financial, and ethical implications.

The Wealth Management Approach



Although it directly takes on complex issues, in comparison to financial planning, wealth management is characterized by a more pragmatic approach. With financial planning, an elaborate financial plan contained in a lengthy “big book” is often the paramount focus and final deliverable. While wealth managers use the same sorts of high-end software and future scenario simulators to produce their plans, instead of focusing on the “big book” they emphasize a boiled down version of the results along with implementation and regular monitoring. Ultimately, most clients are less interested in the detailed lengthy report that is typically produced and more interested

in an implementable summary of the plan. They want to make sure their overall goals are addressed and evaluated, and that any gaps have been identified and addressed.

Wealth management also differs from standard financial planning in two other significant ways. First, wealth managers know that they simply cannot be all things to all people, and that their clients are far better off if a network of experts can be brought into play to address specific needs. In Brian Jones’s case, a CPA with extensive business planning experience can best address the amount and the method for moving his business’s retained earnings into his personal accounts. Similarly, Brian’s concern about what happens to his business if he’s absent—whether or not his son eventually takes over—can be dealt with by purchasing “key man” insurance in consultation with a knowledgeable insurance agent.

Second, top wealth managers work with their clients in a highly consultative manner. Not only do they work very closely with their clients, but it’s up to the client to decide what the relationship should look like. If for example, the client prefers mainly to communicate by phone instead of email, then phone it is. Or Brian Jones might decide that he’d like to bring his son in early on to meet the wealth manager and participate in a variety of decisions, especially those impacting on the ultimate disposition of the business.

A Comprehensive Planning Process

No two wealth managers or wealth management firms do things in exactly the same way. But if Brian Jones wanted to retain a top wealth manager for both business and personal planning purposes, he might look for the following attributes:



- An understanding of the purpose and evolution of financial planning
- A systematic, customized, and consultative approach
- An understanding of the advanced planning areas
- A commitment to implementation, clear reporting, and ongoing follow-up
- Excellent referrals and recommendations from satisfied clients

What follows is an example of a systematic, customized, and consultative approach. The process would begin with a “discovery” meeting, which takes about an hour and a half. Here, Brian would be asked about his goals and dreams, along with detailed information about his family members and other relationships, including relationships with existing advisors (legal, accounting, insurance, etc.). Prior to the meeting he’d be asked to bring in as many of his important business and personal documents as possible—everything from business and personal tax returns to investments statements to wills and trusts—and during the meeting those documents would be copied and uploaded to a secure database for easy access.

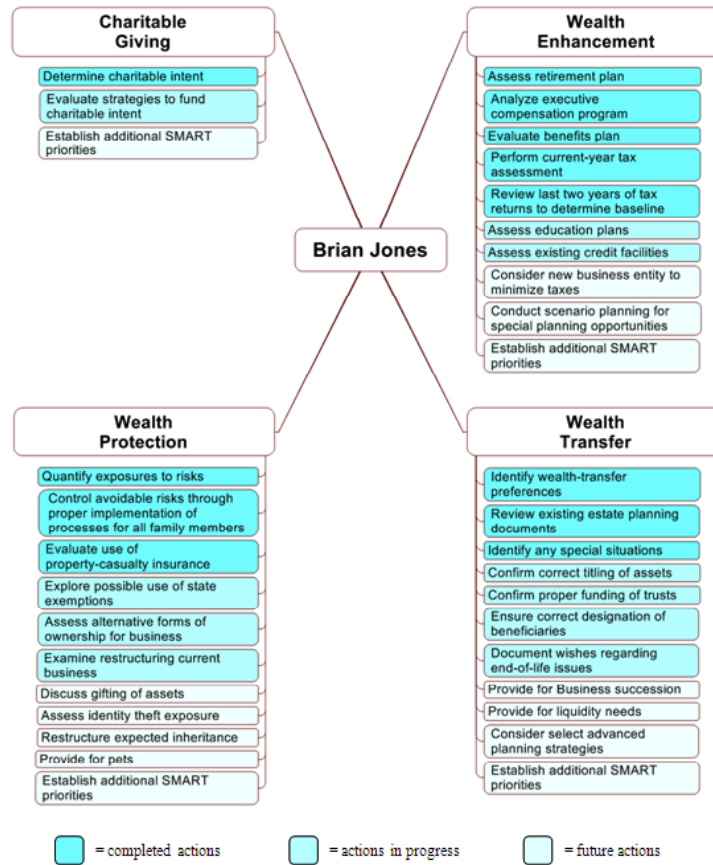
Assuming the initial discovery meeting goes well, roughly two weeks later would be an investment plan meeting (since an investment plan formed in a comprehensive context is a core component around which additional planning is performed). If the investment plan meets with Brian’s approval, then one week later would be a mutual commitment meeting, where a serious mutual commitment to move forward together would be made.

Next would come a 45-day follow-up meeting, where additional organizational and technical matters would be addressed and finalized. Importantly, from the mutual commitment meeting onward, the wealth manager will likely access his or her team of outside experts and ask their advice and input. But it’s only at the first regular progress meeting—which would occur quarterly—that the full scope of advanced planning topics and issues, in concert with an expert team’s recommendations, would be introduced to Brian. This can be done as a single page wealth management plan that is easy to grasp and color-coded to show progress on various items, as depicted below. It’s not unusual for these plans to contain dozens of items, and some contain more than a hundred.

Ultimately, if the wealth manager is doing his job, then Brian Jones will know that all of his bases are fully covered. With a comprehensive plan that includes all elements of his personal wealth and his business wealth—one that takes advantage of in-depth expertise yet doesn’t overwhelm him with unnecessary detail—he’ll be better able to take care of

himself, his family, and the various constituencies of his business. Financial planning for business owners is definitely not what it used to be; instead, as part of a comprehensive wealth management approach, it is much more.

Wealth Management Plan



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