

NEEDS ANALYSIS

Conversion of Value



Maintaining Your Standard of Living in Retirement

All individuals should plan for their retirement. Although business owners tend to have a more difficult time stepping away from their work, they may have an even bigger need for retirement planning. Often, a significant portion of a business owner's assets and income is tied to the business. Therefore, it is very important to determine how much the business can be sold for at the time of an exit. The purchase price will help estimate how much retirement income will be available to the business owner. If you do not know the value of the business, then an estimation of value can be done to help determine an appropriate number to use as the purchase price.

Once the value of the business is determined, it is important to include other assets and income to calculate the retirement income available to the owner. Does this retirement income fall short of or exceed the amount of retirement income that is needed to sustain the owner's lifestyle? In either situation, the business owner may need help managing his or her retirement.

When looking at your retirement, you should compare the income need to the income generated. This will help determine what retirement issues might need to be solved. There are financial products that may be a solution to problems with your retirement plan whether you need to generate additional income or shelter assets from taxes.

Retirement Needs Analysis

A calculation has been prepared projecting your retirement income, based on the following assumptions:

- Sale of the business at age 67;
- Business purchase price of \$2,000,000;
- Monthly Social Security benefit of \$2,500 beginning at age 67. (Social Security inflation rate - 0%);
- Monthly pension benefit of \$1,200 beginning at age 67. (Pension benefit inflation rate - 0%);
- Other monthly retirement income of \$0;
- Additional available funds of \$200,000;
- Average 5% after-tax return on investment; and
- Average 3% rate of inflation.

Based on the assumptions on the previous page, sale proceeds of \$2,000,000 at age 67 would produce the following annual income adjusted for inflation until you are age 65.

| Annual Income Generated | Annual Income Needed | Annual Income (Gap) |
|-------------------------|----------------------|---------------------|
| \$118,700 | \$150,000 | (\$31,300) |



As shown above, the funds generated from exiting the business as well as any additional retirement income and funds are not expected to generate enough income in retirement to meet the annual income needed. In this situation a marketability assessment should be considered to help determine ways to unlock more value in the business. Increasing the value of the business will increase the annual income generated. Additionally, there are financial products that might assist in closing the gap between the annual income need and the annual income generated.

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