Secure Your Financial Well-Being

Your firm must be firing on all cylinders for your financial protection now and in the future.

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Imagine that you're a runner and you have a heal spur on your right foot. Visualize how your smooth, steady, well-cadenced stride is thrown off by this one impediment. Your stride is shorter on the right side now, which will create an imbalance as the left side stretches farther, which might then cause your left calf to tighten. Your right arm might not swing with its normal reaching movement, and that can cause an imbalance as your left arm tries to compensate. The next thing you know, you have several impairments all due to that one original symptom.

It's the same way with your financial well-being.

The Problem

Allow me to simplify the financial concerto of a business owner. In short, it starts with the operation of your business. Maybe it's your inability to set prices or compute what those prices should be. This will result in decreased profit. That decreased profit will then affect the amount of cash in your bank accounts. Throw in a month with impaired death calls and suddenly you need to use these savings to pay ordinary bills.

Even if next month you experience your routine case count, the fracture has already occurred. Now you find yourself trying to stay at this impaired level and not get in any deeper. You're relieved when a family comes in with a large preneed payment and gives you cash. Your state allows 10 days to make the deposit. You think, "I will just pay a few bills and then someone else will come in and I can repay this to my trust." But it doesn't happen and you start the well-known "robbing Peter to pay Paul" routine.

Now, I know what you're thinking: This would never happen to me.

In my study of more than 3,000 funeral homes, many of which I've watched for more than three decades, I've learned a few things:

• More than 50% of all funeral homes have aging receivables over 42 days.

• More than 50% of all firms have less than 30 days of overhead in cash.

• Profit margins over that 30-year period have dropped from about 15% of revenue to about 7% of revenue even though…

• Consumer spending has gone up more than 5% per year from 1990-2010 and up 2% per year from 2011 to now.

How can profits go down by 50% when consumers are spending more? It's simple: The typical funeral home is not raising its prices by a rate equal to or greater than the increase of their internal costs! I will save the ways and reasons for setting prices for another time; for now, let's focus on the big picture – that is, your firm must be firing on all cylinders for your financial well-being.

The Goals

Those who own a business or desire to own one should ask, "Why am I willing to take this immense risk?" The usual answer is something like, "I want to be in control of my financial destiny." I get that. I have been a business owner for my entire adult life. The goal is to be in control of your ability to be financially independent some day in the future.

People who do not own a business often have the same goal, but their definition of financial independence usually falls at a lower level. The average person retires with less than $100,000 in their control, according to the Economic Policy Institute. Non-business owners are most dependent on the value of their home and their qualification for Social Security.

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I estimate that the average business owner wants to retire on about 80% of their working pay. This means they may need to have more than $1 million saved! Business owners will rely on their home equity and Social Security but also on their savings, business value and qualified retirement plans.

The goal can be measured by your answers to the following questions:

1. What do you want your annual buying power to be the year you elect to be financially independent of your business?

2. How long do you plan on living after you begin your retirement?

3. What inflation rate will you assume in order to keep your buying power increasing to

maintain the equivalent amount of money?

4. What rate of investment will you assume your money will earn after retirement?

I have done this analysis for a thousand people in my lifetime. More importantly, I've done it for myself. The key is to pick the *incorrect* assumption for each factor! For example, if I am going to retire at 70 and live to 90, that's 20 years. But I want to be wrong, so I am going to assume I will live to age 95. If I want to have $100,000 a year in retirement, I might pick $110,000. If I assume inflation is going to be 2% per year, I might over-guess by 50% and assume a 3% inflation rate. If I'm going to estimate that my money will earn 5% per year, again, I want to be wrong, so I'll assume 4%. Be wrong and be safe!

Using these assumptions, let me assume I need to have $1.6 million under my control, plus the value of my social security lifetime benefit. What do I have to do to accumulate $1.6 million by the time I turn 70?

Process to Financial Security

As an owner, it starts with running your business profitably:

1. Make sure your revenue is correct and control overhead. The result is called profit.

2. Profit must be used judiciously. Some must be put back into the business, some to retire any debt and some set aside in a retirement plan. The balance is called distributable profit.

3. Distributable profit is the profit owners get over and above their salary. This money has one doorway to pass through before it can be used by the business owner. That door is called taxes.

4. After-tax money can be consumed, but there is a balancing act needed between consumption and investment. Anything consumed probably has no value to aid in the retirement plan. It's the money set aside for investment that is critical for the retirement objective.

Keys to Success

Success Tip 1: *Set your pricing and overhead properly.* People will buy your business at its true economic value, not the number you made up in your head. Businesses sell for a multiple of their earnings. Have a valuation analysis completed and have an adviser tell you how to set pricing.

Success Tip 2: *Design and implement a retirement plan that's in your best interest.* Don't look at what others are doing. Your needs, risk tolerance and census of employees may be different. The right plan is as critical as investing the money properly. They are independent decisions, but they must be integrated.

Success Tip 3: *Take the right salary.* Be aware that laws change. The emphasis on salary is important. However, the distributable profit may not all be taxable if you understand qualified business income. QBI is a deduction for LLC and Sub S owners, and it's possible that 20% of the pass-through income is eligible for tax-free treatment!

Success Tip 4: *Know what type of business entity to be.* There is a difference between a C corporation and an S corporation. There's a difference between a corporation and an LLC. Don't guess at it!

Success Tip 5: *Invest wisely.* A simple principle of investment wisdom is diversification. "Don't put all your eggs in one basket and watch them like a chicken. Put them around the barnyard and watch them like a hawk!"

Choice of Advisers

This is a most important decision. Take care to have advisers who'll yell at you if you make bad decisions. This isn't the time to use friends, especially those who won't tell you you have spinach in your teeth after lunch.

Take care to have advisers who will yell at you if you make bad decisions.

A good accountant understands your financial and tax situations and knows the funeral and cemetery business. A good investment adviser understands your risk tolerance and knows how to help you be prepared for the future. A good business adviser watches over those assets that might be 70% of your retirement need. If you can find all of this in one person, great. If you need multiple people, that's fine as well. Make sure they have a unified plan and keep you focused on hitting it.

This isn't easy; only about 5 in 100 people retire with the income they planned. It's your decision: Will you be part of the 95% of financial illiterates or part of that rare group with their finger on the pulse of their business? ≡

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