HIGHTOWER
Westchester

Making the Most of Your Financial Success After You Retire

A Framework for Business Owners

When it comes time for you to step back and enjoy your hard-earned success after the sale of your business, you will face a significant transition — from managing the success of your company to achieving your personal goals. This transition is usually rewarding but not without its own set of challenges as you seek to make optimal financial decisions.

At that time, you may wonder:

- How should I invest my assets now that my financial profile has changed? What can I afford to spend each year?
- What percentage of my assets should remain liquid — in cash or cash equivalents?
- From which investment accounts should I spend when I need to take withdrawals?

While no two business owners' post-sale situations are the same, we have found that the following steps — many of which reflect similar concepts applicable to running a company — provide a framework for preparing for this new stage of life. And keep in mind that you should take these steps well in advance of retiring, so it's worth reviewing them even if you don't plan to step away from your business anytime soon.

UNDERSTAND YOUR POST-SALE PRIORITIES

To effectively manage your personal wealth, you need to understand how much you want to — and can afford to — spend. This may seem obvious, but business owners are often so busy running their company that they haven't had the chance to step back and reflect on what matters most to them — priorities versus habits or "nice to haves."

If you have a partner or spouse, we recommend sitting down together and identifying your goals, including:

- The type of lifestyle you'd like to maintain
- Large purchases (i.e., second homes, art, etc.) you'd like to make
- The level of support you'd like to provide to your children or other family members, including for education and daily living expenses, both during your lifetime and as part of your legacy
- If and how much you'd like to spend on philanthropy

These personal priorities should serve as the foundation of your financial plan and guide your financial decisions going forward.

BUILD A PERSONAL CASH FLOW STATEMENT

Just as it is when running your company, cash is king when overseeing your personal finances. To manage your cash flow effectively, you need to understand it — expected inflows and outflows during the years ahead. And having identified your priorities as part of the first step mentioned above, you will be in a good place to do this, with the help of an advisor.

ALIGN YOUR INVESTMENTS WITH YOUR CASH FLOW

Once you understand your future cash flow you can work with your financial advisor to identify the level of investment risk that aligns with your spending goals and risk tolerance. Through this process, you may find that you need to adjust your spending plans — either because you won't have enough money or would need to take an intolerable level of risk. Or, you may discover that you have a high probability of having a surplus of wealth, providing you the confidence to accomplish more than you knew was possible, such as gifting more to loved ones or charity or buying a family vacation property.

OPTIMALLY ALLOCATE INVESTMENTS AND MAKE WITHDRAWALS

Make sure you incorporate investment taxes into your planning decisions. Generally, this means placing less tax efficient assets (e.g., bonds that generate taxable income) in tax-favored accounts (e.g., IRAs) and placing more tax efficient assets (e.g., no/low dividend stocks) in taxable accounts. As another general rule, you should make withdrawals from your taxable accounts before dipping into your tax-favored accounts, with the goal of allowing as much of your assets as possible to grow tax free for as long as possible. But these are just general guidelines. You should carefully consider them with your financial advisor in the context of your unique situation.

PLAN FOR STATE TAXES

Make sure to factor in state taxes and domicile requirements if you are deciding whether to relocate or spend more time in another state. Taxes and residency rules (e.g., how many days you must reside in a state to qualify for that state's taxes, proof of residency requirements, etc.) vary from state to state and can have a significant impact on your overall tax bill. Also, keep in mind that no state is "tax free." Estate, property and sales tax should be considered in addition to income tax.

GIVE STRATEGICALLY

By being more strategic with your charitable dollars, you can make a bigger impact, including by allocating more to the causes you care about as opposed to taxes. Examples of strategies you may want to consider with your financial advisor include:

- **Donor advised fund (DAF):** A DAF is an account or fund, owned by a sponsoring organization, to which you make charitable contributions. The sponsoring organization manages the DAF's investments and distributions. The potential benefits of a DAF include relative ease (since the sponsoring organization manages it), simplified record-keeping for tax reporting, privacy, and flexibility on when and if to make donations.
- **Charitable trusts:** Establishing a charitable trust may help you achieve multiple goals, including balancing your charitable goals with your income needs and/or providing potential tax deductions. There are two main types of charitable trusts that you can consider with your advisors — charitable remainder trusts (CRTs) and charitable lead trusts (CLTs). Both types of trusts involve gifting assets to a trust, after which regular payments from the trust are either made to a noncharitable beneficiary (CRT) or charitable beneficiary (CLT) until the end of the trust's term, at which point remaining assets are paid to a charitable beneficiary (CRT) or noncharitable beneficiary (CLT).
- **Private foundation:** A private foundation is a qualified tax-exempt charitable organization funded by a single family (or a limited number of individuals) that retains complete control over investments and grantmaking decisions. The potential benefits of a private foundation include full control over grantmaking, including the ability to support organizations other than 501(c)(3) public charities; larger potential upfront tax deductions; and fostering shared family philanthropy.

DELEGATE

You likely find considerable value when running your company in delegating certain responsibilities to trusted individuals who have the right experience to best accomplish the task at hand. The same can be true when managing your personal finances. Delegate to (or find) a financial advisor to serve as your quarterback. Your trusted advisor can coordinate with your estate planning attorney, accountant and any other advisors, keep a close watch on your financials, and continue to uncover new opportunities to protect and preserve your wealth.

To learn how our team can help you, please reach out to us. Helping business owners fully realize the value they have built for themselves, their loved ones and the causes they care about is one of the most rewarding parts of what we do.

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