

Six secrets to small-biz financial security

How to draw the line between personal and professional

Provided by Bob Rhyme, Northwestern Mutual - Denver

For a small business owner, it can be hard to draw the line between what's professional and what's personal. After all, you've used countless hours and resources of your own to build your business. But when the lines between your business and personal finances blur, there can be problems and confusion.

To avoid potential headaches, consider these important points when evaluating your financial position.

Be realistic about all of your finances. As with any financial matter, planning is of the utmost importance. Consider where you want to go in both your professional and personal lives and how you will get there.

You need a plan to grow your business, so set concrete goals for growth through the years. You'll also need a plan for retirement to ensure that you'll have the resources to live your desired lifestyle once you finish working. By employing a team of experts who are well versed in both the personal and business side - accountants, attorneys, bankers, financial planners - you will be more likely to realize your goals and maximize value.

Try not to overdo personal expenses at the expense of your business. Many business owners run personal costs through the company as business expenses to reduce taxes on their individual return.

Running the cost of cars, vacation homes or non-business travel expenses through the business can reduce the value of the business by showing less profitability. Remember, businesses are

generally valued at a multiple of the company's net-profit.

Avoid using your business as your personal piggy bank. Just as you should curb the impulse to run personal costs through your company, don't use the company as a mine for your personal finances. Keep your overall compensation reasonable to make sure your business remains well capitalized. This will help you grow the business over time and facilitate any future sale.

Think about diversifying your assets. For many business owners, the business is their biggest asset - possibly up to 80-90 percent of their net worth. But it's important to diversify your assets.

Over time, try to build a portfolio with a good mix of assets by making the most effective use of qualified and non-qualified retirement plans as well as potential use of business real estate. This will provide more security to your portfolio by reducing the likelihood that all of your proverbial eggs are in one basket.

Share your growth of profits with key people most responsible for that growth. Consider implementing a plan that retains and rewards the key management team for their role in growing your company.

Make sure the benefits in the plan vest at the same time you are prepared to exit the company. Benefits offered to key people can be informally financed with a variety of financial tools including Corporate Owned Life Insurance (COLI).

Use legitimate tax strategies within the business to help your personal finances. You can use a number of options within the business structure to provide for your personal finance needs and those of your employees, which in turn can help attract the best people and grow the company.

In addition to offering a qualified retirement plan, consider adding a non-qualified plan for your top level people to attract, retain and motivate. Consider using benefits like long-term care and life insurance as well. Long-term care benefits for yourself, your spouse and key management may offer significant tax advantages due to recent legislation.

If you want to provide key employees life insurance, consider using specifically designed life insurance policies that contain both base premium and additional premiums as a method of accumulating tax-deferred savings for use in retirement.

If you take good care of your business, it can take care of you by providing a sense of freedom and accomplishment, as well as income and a strong asset on your balance sheet. And while your business is tied to your private life, maintaining a balance can be the best way to maximize not only your finances, but your happiness.

This article was prepared by Northwestern Mutual with the cooperation of Bob Rhyme, CLU, ChFC, AEP. Rhyme is a Wealth Management Advisor with the Northwestern Mutual Wealth Management Company, a subsidiary of The Northwestern Mutual Life Insurance Company, Milwaukee, Wisconsin.