MassMutual

Protect your business and shape your future

Top 10 questions for business owners

What is the sign of a good decision?

Clarifying what you want to achieve in your life, what you care most about, and how life's uncertainties could affect your plans and aspirations. Turning your plans into action and your goals into reality.

Our top ten questions and answers

There are many "Top Ten Question" lists published throughout the financial services industry. But this list is quite different from those others. Other lists focus on questions like "how much life insurance do I need?" or "should I buy Term or Permanent life insurance?" or "how much money will I need in retirement?" You won't find any of those questions here. Because Massachusetts Mutual Life Insurance Company (MassMutual) and our affiliated financial professionals firmly believe that — when you think about how to protect the business you worked so hard to build — there's a whole other set of questions that you should be considering first.

1. What are my goals as a business owner?

Before even thinking about the right financial products for your needs, you should clarify what you want to accomplish as a business owner. Basically, think about what motivated you to become a business owner in the first place. Was it a drive to achieve wealth and success? The desire for a lifestyle of independence and the freedom to work your own hours and be your own boss? Or a passion for a craft or trade? Maybe it was something else or a combination of factors. Whether you reflect on this question alone, with family members, or your business partners answer this question first, as it will then create the framework around which your business planning strategy can be built.

2. My business is my livelihood, who else is dependent upon its success?

This question should be at the heart of your planning process and is one that should be answered well before you consider what financial products you need and in what amount. As a matter of fact, answers to those more traditional questions of "what kind" and "how much" really depend... well, on your dependents! Think carefully about who depends on the success of your business. While your spouse and children are commonly thought of as the most obvious dependents, there are others counting on you when you own a business — your business partners, employees, and other family members involved in the business, just to name a few. There are many reasons businesses close their doors — and not all involve poor sales or a down economy. With your list of current and potential dependents in mind, you'll be better prepared to plot your course toward protecting your business and minimizing the impact an unforeseen event could have on those who depend on you most.

Think carefully about who depends on the success of your business.

3. Do I have benefits in place to attract, reward and retain top talent?

Your key employees make valuable contributions to your business each and every day. The last thing you want is to lose one of them to a competitor. Think about the value they bring — whether it's their creative genius, sales acumen, or leadership qualities — and what those characteristics are worth to your business. You might even consider them to be the most valuable asset of the business. You may already offer a standard benefits package — one that includes medical and dental coverage and perhaps a 401(k) plan. However, your competitors more than likely offer a similar benefits package. These days, employees are looking for benefits above and beyond the standard packages most employers already offer. These additional benefits can go a long way towards positioning your business as the employer of choice and fostering loyalty among the employees who are most critical to the success of your business.

4. Do I know what my business is really worth?

The reality is most business owners don't know what their business is worth. That's because most business owners have never truly had their business valued. Knowing what your business is worth is critical for proper business planning. For example, having an accurate business valuation can help eliminate conflict between a buyer and a seller (which may be two family members) when an owner wants to sell the business. It can help business owners better estimate their retirement nest-egg to more accurately plan their retirement income strategy. And, it can prevent potential issues with the IRS when it comes time to pay estate taxes. Keep in mind that a proper business valuation is not a "rule of thumb" or a number pulled out of thin air and scribbled on a cocktail napkin; it's thoughtfully crafted by a credentialed appraiser after thorough research and it's documented in writing.

Knowing what your business is worth is critical for proper business planning.

5. Do I have a buy-sell agreement in place, and if so, is it properly funded?

Only 40% of business owners have a legally documented buy-sell agreement in place that covers the death of the owner.[1] And, even fewer have one in place that covers disability. That's problematic when you consider that a buy-sell agreement, when properly executed and funded, can be critical in helping to ensure the continuity of a business in the event of a catastrophic event. A buy-sell agreement can be designed to protect your business from the five D's — death, disability, divorce, departure, and disqualification. For example, without a buy-sell agreement, upon the death or disability of a business owner, the business, or portions of it, may need to be sold in order to pay the surviving owners for their share of the business, estate taxes, and/or business operating expenses. If a buy-sell agreement is in place, it's important to make sure that it's funded in accordance with the current value of the business; otherwise it won't accomplish what you intended. To help ensure that your buy-sell agreement continues to meet the needs of the business, it should be reviewed at least every three years.

6. Have I made my family members and key employees aware of my succession plan?

When a business succession plan is being developed, the question of who will take over the business, and when, is paramount. Remember that businesses can transition expectedly or unexpectedly, so it's important to have meaningful discussions with family members and key employees early in the process. This includes having discussions with your potential successor to ensure he/she shares your passion for the business and has a genuine desire to keep it running successfully. It also includes setting expectations around your involvement in the business post-transition. Coordinate your succession plan with key employees by having them participate as appropriate in structuring the plans and making sure they fully understand the impact it could have on them. It's crucial to have key employees and family members supportive of future leadership because you never know under what circumstances a transition will occur.

7. Will I have sources of retirement income beyond proceeds from the sale of my business?

Many business owners have a difficult time finding a ready, willing and able buyer. That's a buyer who can pay the appropriate value for the business at the point in time the owner wants to sell it. So business owners do one of three things: **1)** don't sell and put off retirement; **2)** sell the business at a value below its worth; or **3)** "take back paper," which means the seller must wait to see whether the buyer can properly manage the business and pay the remaining purchase price over time. These risks underscore the importance of a diversified retirement income strategy. The sale of your business should absolutely be a major component of that strategy — after all it's probably your largest asset — but it's important to have other sources of income available should you need them. There are no guarantees when the time comes to sell your business, so don't leave your retirement contingent upon these uncertainties.

8. Have I taken the necessary steps to minimize my tax burden?

Educate yourself and work with a qualified tax professional to understand the tax advantages afforded to business owners. There are many factors that contribute to how you and your business are taxed, including how your business is structured, and the tax breaks you may be eligible to receive. The first step toward effectively managing your tax burden is to have an accurate picture of your business' financial situation. Your books should be clear and up-to-date. Stay on top of your cash flow, namely your accounts payable, accounts receivable, and inventory. And, of course, have an up-to-date business valuation in writing for estate planning purposes. The last thing you or your heirs want is the IRS valuing your business for you. If you are like most small business owners, you often deal with tight cash flows and small profit margins, so you could stand to benefit from a full reduction in your tax payments.

9. Do I have a coordinated team of advisors working with me?

Business owners continually say their accountant is their most trusted business advisor.[1] But the reality is you need a team of advisors, which also may include your attorney, financial professional, property and casualty agent, and banker, to effectively manage and protect your business interests. Often times, these advisors work independent of each other and rarely coordinate efforts on your behalf. That's why it is important to appoint a "quarterback" for your advisory team. One who will bring the best thinking of your advisors together and help ensure they are all working in concert with the best interest of your business in mind.

10. How do I pick the right financial professional to work with me and my business?

Aside from you, your business partners, and your family, there are two key parties who play critical roles in this process — the financial professional who helps you plot a course and the financial services companies that provide the associated product solutions. When choosing a financial professional, work with someone who is not only competent, but also inspires your trust and confidence. The best financial professionals are good listeners who seek to fully understand your business, circumstances, and financial objectives before ever proposing possible solutions. They should have access to product solutions from multiple fine companies, clearly explain how they get paid for their services, and provide references upon request. Lastly, make sure your financial professional has a solid support network behind them. Those affiliated with a strong, reputable firm will likely have access to better resources to support your specific needs as a business owner.

[1] Source: MassMutual Business Owner Perspectives Study, 2015, conducted by HawkPartners on behalf of Massachusetts Mutual Life Insurance Company (MassMutual).

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