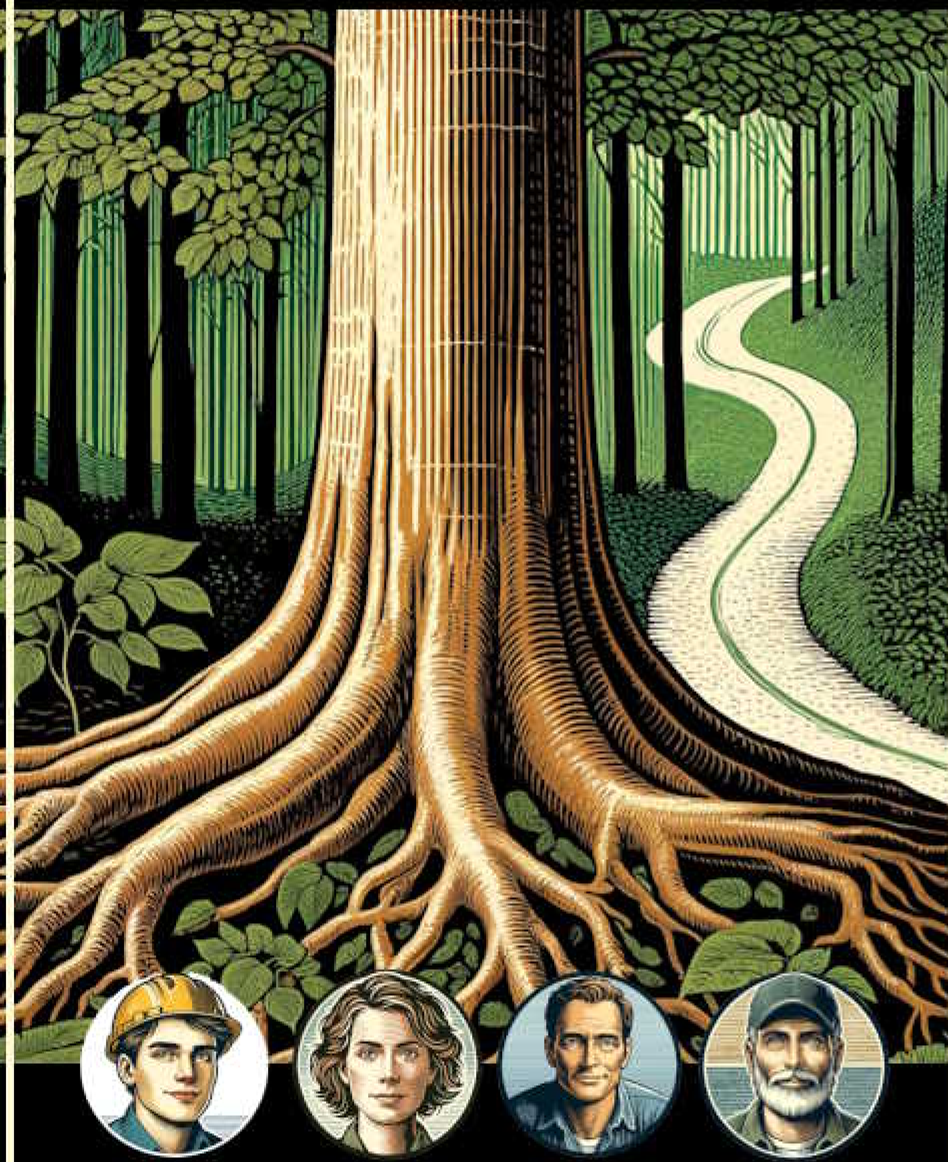
AFTER WOOD



Routes to Retirement

Steven Bick

After Wood

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Steven Bick

Published by:

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In Memory of Robert M. Burney

He retired early and left us too soon.

After Wood: Routes to Retirement

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CHAPTER 1

Introduction To Planning for Retirement

This publication is designed as an introductory guide to retirement planning for small business owners, with a special focus on those in the forest products industry. It unfolds in a structured order to address the different aspects of retirement planning, from defining retirement in today's context to detailed discussions on savings options, the role of investment strategies, and the intricacies of tax implications and legal considerations. This is not the only retirement guide you will ever need – far from it. It is, however, a good way to familiarize yourself with retirement and develop the mindset that retirement is a tangible and obtainable place in your future life.

We begin by exploring the concept of retirement, emphasizing its transition from a phase of slowing or ceasing work activities to a period of personal growth and enjoyment, financial independence, and potential continued engagement in work. This section aims to reshape the reader's understanding of retirement, presenting it not as an end but as a new beginning with broadened horizons for exploration and fulfillment.

Following this, we explore the various retirement savings options available to small business owners.

We define and describes vehicles like SEP IRAs, SIMPLE IRAs, and Solo 401(k) plans, among others (including Social Security), providing a comparative analysis that aids in choosing options that best align with individual business structures and financial goals. This section serves as a foundational primer on constructing a retirement savings portfolio tailored to your own needs as a small business owner.

Investment strategies for retirement savings constitute the next focus area, offering insights into the balance between growth-oriented and conservative investments. It addresses the critical role of diversification, risk management, and the timing of investment to optimize retirement income. This section is instrumental in guiding small business owners through the often complex investment landscape, highlighting strategies to maximize returns while mitigating risks. This section is meant more as a description than advice. Specific investment advice is beyond the scope of this offering.

Tax considerations and legal frameworks surrounding retirement planning are examined in detail, underscoring the importance of understanding the tax advantages and implications of different retirement savings accounts and investments. Additionally, this part touches on

estate and succession planning, ensuring that business owners are well-equipped to make informed decisions that secure their legacy and provide for a smooth transition.

An effort has been made to integrate discussions of the psychological aspects of retirement planning, emphasizing the importance of early and thoughtful preparation to align financial strategy with personal aspirations for the retirement years.

The concluding sections present fictional case studies of small business owners within the forest product industry. These demonstrate the contents of this guide in real world situations you will find familiar. These individual routes to retirement illustrate how diverse retirement planning strategies can be effectively implemented in real-life scenarios. While these case studies are intended as relatable example, they encapsulate the practical application of the principles discussed, providing readers with tangible examples of successful retirement planning in action.

Through this sequential exploration, this document aims to equip small business owners with the knowledge, tools, and confidence to embrace retirement planning, ensuring a secure and fulfilling future.

Retirement Defined

Retirement is a significant phase in an individual's life, marking the transition from decades of work and professional engagement to a period of personal fulfillment, rest, and exploration. Philosopher and investor Naval Ravikant says that “retirement is when you stop sacrificing today for an imaginary tomorrow”. Traditionally perceived as the end of one's working life, retirement is increasingly seen today as a new chapter, offering opportunities for growth, learning, and enjoyment in the absence of traditional employment obligations. The meaning of retirement, however, extends far beyond slowing or ceasing work; it includes financial independence, personal development, and a redefinition of identity and purpose.

Many small business owners enjoy most aspects of their work. With this in mind, retirement might constitute a shift of responsibilities that keeps all of the things they enjoy intact, while delegating or shifting responsibility for those duties they enjoy least to others. Often this involves overcoming the mental hurdle that the retiring individual is the only person who can handle such duties. Anything done grudgingly is best done by others in your retirement.

Financial independence is a cornerstone of retirement. It signifies the point at which an individual has accumulated sufficient resources to support their lifestyle without the need for ongoing employment or direct operation of a business. This financial security allows retirees to make choices about how they spend their time, free from the constraints of earning with their time. The route to this stage involves diligent planning, saving, and investing. This underscores the importance of financial education and preparation throughout one's working life. The concept of financial independence reshapes retirement from a phase of limitation to one of opportunity, where personal interests, travel, hobbies, and philanthropy are pursued as the primary occupation of your time.

On a personal level, retirement opens the door to significant self-discovery and development. Freed from the demands of a career, individuals often find space to explore or resume interests and passions that were previously sidelined. This period can be marked by learning new skills and hobbies, or dedicating time to causes and communities. For many, retirement is also a time for deepening relationships with family and friends, fostering connections that were strained under the weight of professional responsibilities. Importantly, this phase allows individuals to redefine their sense of self and

purpose outside the confines of their work identities. Your personal worth is no longer a function of professional achievement and perhaps you learn that it never was.

The modern concept of retirement is also evolving to include continued engagement in work, often in different and more enjoyable capacities. Many retirees choose to pursue part-time work, consulting, or volunteerism, driven not by financial necessity but by the desire for intellectual stimulation, social interaction, and a sense of purpose. Sometimes removing the profit motive causes a greater level of enjoyment. This shift reflects a broader understanding of retirement as a satisfying stage of life, where work can coexist with living life on your own terms and schedule.

The psychological aspects of transitioning into retirement are significant and difficult. The abrupt change in daily routines, loss of workplace social structures, business interactions with colleagues and the challenge of finding new purposes can be disorienting. Successful navigation of this transition requires adaptability, open-mindedness, and proactive engagement with new communities and interests. Alternatively, it may be a much needed opportunity to spend more time alone. Society's support systems, including family, social groups, and retirement planning services, all play a role in a

smooth transition, underscoring the responsibility in viewing retirement as a positive and enriching stage of life.

Retirement is multifaceted, embodying financial independence, personal growth, a shift in work engagement, and a redefinition of identity. As our perceptions of retirement evolve, so does the recognition of this stage as a significant and potentially fulfilling phase of life. Embracing retirement with preparation, curiosity, and openness to change can transform these years into a period of unparalleled satisfaction. The routes to retirement approach is one of working toward the type of financial security that make all of this possible.

Retirement Accounts vs. Retirement Investing

Understanding the distinction between retirement accounts (vehicles) and retirement investments is crucial for effective retirement planning. While both are integral components of a retirement strategy, they serve different functions in helping you achieve financial security in your later years.

Retirement Accounts (Vehicles)

Retirement accounts, often referred to as retirement vehicles, are special types of financial accounts that offer tax advantages for saving for retirement. They

are containers that hold investments and come with specific rules regarding contributions, taxes, and withdrawals. The primary purpose of these accounts is to encourage long-term savings by offering tax benefits that enhance the growth of invested funds.

Key Types of Retirement Accounts:

1. 401(k)/403(b) Plans: Employer-sponsored retirement plans allowing employees to contribute a portion of their pre-tax salary. Employers may match contributions to a certain percentage.

2. Individual Retirement Accounts (IRAs): Including Traditional and Roth IRAs, these accounts can be opened by individuals with earned income, offering tax-deferred growth or tax-free withdrawals, respectively.

3. SEP IRAs and SIMPLE IRAs: Designed for self-employed individuals and small businesses, these IRAs allow for higher contribution limits.

4. Health Savings Accounts (HSAs): While primarily intended for medical expenses, HSAs can also serve as a retirement saving vehicle due to their tax advantages and the option for non-medical withdrawals after age 65.

Characteristics of Retirement Accounts:

- Tax Advantages: Contributions may be tax-deductible, and investments grow tax-deferred or tax-free, depending on the account type.
- Contribution Limits: There are annual limits on how much can be contributed.
- Rules for Withdrawal: Accounts typically have rules about when and how funds can be withdrawn, often with penalties for early withdrawal before retirement age.

Retirement Investments

Retirement investments refer to the actual assets held within retirement accounts. These can range from conservative options like bonds and certificates of deposit (CDs) to more aggressive investments like stocks and mutual funds. The choice of investments should be based on an individual's risk tolerance, investment horizon, and financial goals.

Common Types of Retirement Investments:

1. Stocks: Shares in companies that offer the potential for high returns but come with higher risk.

2. Bonds: Debt securities that provide regular interest payments, offering more stability but lower returns compared to stocks.

3. Mutual Funds: Pooled funds managed by professionals that invest in a diversified portfolio of stocks, bonds, or other securities. Some asset management companies offer mutual funds specifically tailored to future retirement dates (targeting, for example the years 2035, 2045 and 2055). These funds seek the optimal blend of stocks and bonds for growth and asset protection, moving toward a more conservative mix as the target date draws closer.

4. Exchange-Traded Funds (ETFs): Similar to mutual funds but traded on stock exchanges, offering flexibility and diversification.

5. Real Estate Investment Trusts (REITs): Companies that own or finance income-producing real estate, providing an option for real estate exposure without direct property ownership.

6. Real Estate: Land and improvements, including residential and commercial properties, farmland, timberland and similar properties. Often this is done within a self-direction 401(k) account.

Characteristics of Retirement Investments

- Risk and Return: Investments vary in their level of risk and expected return, influencing the growth of retirement savings.

- Diversification: A mix of different types of investments can reduce risk and stabilize returns over time.
- Liquidity: Some investments, like stocks and ETFs, offer higher liquidity than others, such as real estate.

Distinction Between Retirement Accounts and Investments

The functions of retirement accounts and retirement investments are different. Retirement accounts provide a tax-advantaged structure for saving, while retirement investments are the actual assets held within these accounts that generate growth over time.

Retirement accounts are governed by specific IRS rules regarding contributions, taxes, and withdrawals. The investments themselves are subject to things that are far less specific - market fluctuations and economic factors.

While the choice of retirement account might be limited by employment status and income, individuals have wide latitude in selecting the investments within those accounts based on their risk tolerance and financial goals. The challenge of choosing the right type of retirement account poses a different set of questions than that of choosing the right investments to hold within these accounts.

In retirement planning, selecting the right mix of retirement accounts and investments is key to building a robust financial foundation for the future. Retirement accounts offer the tax-advantaged framework within which investments can grow, while the choice of investments determines the rate of that growth and the level of risk involved. Understanding the interplay between these elements allows individuals to tailor their retirement strategy to meet their unique needs and objectives, paving the way for a secure and prosperous retirement.

"Diversification is not just a strategy of resource allocation; it's an imperative for risk management in your retirement portfolio." (Slott, 2021) Investing in retirement and other accounts outside of your business in stocks, bonds, real estate, or mutual funds can provide additional income streams and financial security in retirement.

Financial planners can play an important role in providing investment advice but be sure not to overlook your own expertise. While experts can help you with unfamiliar aspects of investment, small business owners often encounter solid investment opportunities within their own field. Be on the lookout for these opportunities and take advantage of situations where your knowledge

provides a greater level of certainty than what would be apparent to the average investor.

Setting the Stage for Comprehensive Retirement Planning

Chapter 1 lays out the foundational knowledge necessary to understand retirement planning, particularly for working lands types of small business owners such as logger, foresters, and sawyers. We've redefined retirement not just as an end or slowing of work, but as an exciting new phase of life ripe with opportunities for personal growth, financial independence, and even continued professional involvement.

Moving forward, the subsequent chapters and sections will look deeper into the specifics of various retirement planning vehicles and strategies that can be leveraged to secure a financially stable and fulfilling retirement.

In Chapter 2, *Retirement Savings Vehicles*, we will explore the different types of retirement accounts available to business owners in depth. From SEP IRAs to Solo 401(k)s, we will analyze the nuances of each option, their tax implications, contribution limits, and strategic benefits, ensuring you can make informed decisions that align with your unique financial and business landscapes.

Chapter 3, *Beyond Conventional Retirement Accounts* expands the horizon beyond traditional retirement vehicles. If you want to invest for the future outside the constraints of formal retirement accounts, it is important to read this chapter. We will discuss the use of general savings accounts, taxable investment accounts, and the strategic purchase of real estate including timberland and agricultural land. This chapter aims to provide a diversified approach to building your retirement portfolio, emphasizing flexibility and maximizing potential returns.

Chapter 4, *Social Security*, will provide a straightforward description of this social program, including the potential timing of benefits. This chapter will show you how to quantify your potential social security benefits in retirement and why you should view future benefits with cautious optimism.

Chapter 5, *How Much is Enough*, will discuss how to determine your future financial need in retirement. Knowing your requirements is the first step in selecting strategies to ensure you get there.

The role of certified financial planners is covered in Chapter 6. It is important to learn how these professionals can help craft a plan for your future financial needs. Chapter 7 goes on to discuss the

planning process and consideration of universal concepts that everyone should consider.

The concluding chapters describe routes to retirement for four different fictional characters in dissimilar stages of their work and business careers.

Chapter 8 will focus on Josh, a fictional 25-year old logger who wants to grow his business even while he plans for his eventual exit from working life.

Chapter 9 tells the story of Gert, a 35-year old consulting forester with a growing practice. She has come far enough in her work to know she needs a financial plan for her post-career life.

Chapter 10 tells the tale of 45-year old Ryan and his successful sawmill operation. Ryan wants to eventually parlay his turnkey business into a comfortable retirement for him and his wife.

In Chapter 11 we learn about a logger named Todd. At 55 Todd envisions a retirement at age 67 and wants to be sure his business and other assets will be enough to make that happen.

An addendum to this publication discusses government publications and related resources that can help you in the planning process.

Each chapter is designed to build upon the last, gradually guiding you from basic concepts to more

sophisticated financial strategies. By the end of this guide, you should feel equipped not only with the knowledge but also with the tools necessary to craft a retirement plan that best suit your personal aspirations and business objectives. Engaging with this material actively will prepare you to make prudent decisions that ensure a robust financial future and a rewarding retirement.

As we start on this detailed exploration, keep in mind that the broad range of retirement planning approaches is as diverse as the individuals they serve. The strategies discussed will require careful consideration and, in many cases, personalized advice from financial professionals. Together, these chapters will serve as a guide in navigating the field of retirement planning.

A Note on Purpose

The discussions and examples in this guide are designed to prompt thoughtful consideration of your retirement planning needs. They are meant to inspire you to evaluate your personal and business financial situations critically and to encourage you to take proactive steps towards securing your financial future.

It is important to clarify the intent and scope of the material presented. This publication is designed as an introductory resource to foster a deeper

understanding of retirement planning, particularly for small business owners within the forest products industry. It is intended to equip you with the necessary knowledge to begin thinking about retirement in a structured and informed way.

This guide is not intended as specific financial or investment advice. Instead, it aims to provide comprehensive insights and explanations about various retirement planning concepts and strategies. Hopefully, this information will help you recognize the importance of planning and the and the many decisions that are involved.

While this guide serves as a valuable educational resource, it is strongly recommended that you consult with financial advisors, tax professionals, or legal counsel to obtain advice that is tailored to your particular circumstances. Professional guidance is crucial in developing an effective retirement plan that not only meets your unique needs but also adapts to regulatory and economic environments.

By engaging with the material in this guide and seeking out professional advice, you can take well-informed actions towards planning a secure and fulfilling retirement. Remember, the path to retirement requires careful navigation—this guide aims to be a helpful compass only, pointing you in the right direction. You should look further to

benefit from the specialized knowledge and personalized strategies that professional advisors provide.

CHAPTER 2

Retirement Savings Vehicles

In planning for retirement, various savings vehicles cater to different needs, preferences, and situations. Whether you're a small business owner or an individual looking to secure your financial future, understanding these options is crucial.

Here's a straightforward look at some of the primary retirement savings options available to the business and/or to the business owner as an individual:

A *Simplified Employee Pension (SEP) IRA* is a great choice for small business owners and self-employed individuals due to its simplicity and high contribution limits. It allows employers to contribute directly to their own and their employees' retirement savings without the hassle of difficult administration. This plan is particularly beneficial for those seeking an easy-to-manage solution with tax advantages.

A *Savings Incentive Match Plan for Employees (SIMPLE) IRA* is designed for small businesses with 100 or fewer employees. It encourages both employee and employer contributions, making it a collaborative savings effort. The requirement for employer matching contributions helps motivate

employees to participate, making it a win-win for both parties.

401(k) Plans are versatile and can be adapted to businesses of any size. They are known for high contribution limits and the option for employees to contribute a portion of their salary on a pre-tax basis. Employers can enhance the plan's appeal by offering matching contributions. This plan is a popular choice for its flexibility and the ability to tailor it to the specific needs of the business and its employees.

A *Traditional IRA* provides a way for individuals to make pre-tax contributions to their retirement savings, offering tax-deferred growth. It's a straightforward option for anyone looking to start saving for retirement, with the added benefit of potential tax deductions.

A *Roth IRA* stands out for its after-tax contribution feature, offering tax-free growth and withdrawals in retirement. This makes it an appealing option for those who anticipate being in a higher tax bracket in the future or who value the flexibility of tax-free withdrawals.

An *Individual 401(k)/Solo 401(k)* blends the benefits of a traditional 401(k) with the simplicity needed by solo entrepreneurs and self-employed individuals. It allows for both employee deferrals and employer contributions, maximizing the potential for savings.

The annual contribution limits for these accounts is significantly larger than those for traditional and Roth IRA accounts.

Selecting the right retirement savings vehicle depends on various factors, including tax implications, contribution limits, and the individual or business's specific financial situation. Understanding the basics of each option provides a solid foundation for making informed decisions about retirement planning. For those looking to explore these options further, consulting with a financial advisor can offer personalized advice and strategic planning tailored to individual needs and goals. This balanced approach to retirement planning ensures that you're well-informed and ready to make choices that align with your financial objectives.

Let’s examine each of the opportunities in greater detail.

The Simplified Employee Pension (SEP) IRA

This account presents a straightforward, flexible retirement savings option particularly suited for small business owners and self-employed individuals. A close look at its requirements, details, contribution limits, and the strategic approach a small business owner might adopt for retirement

planning, will allow you to fully appreciate the SEP IRA's potential advantages and considerations.

SEP IRA: Overview and Requirements

A SEP IRA allows small business owners to make retirement contributions into traditional IRAs (SEP-IRAs) set up for themselves and their employees. A key feature is its simplicity in terms of setup and maintenance. Business owners, including those who are self-employed, can establish a SEP IRA provided they have earned income.

The requirements for setting up a SEP IRA are minimal:

- Eligibility: Employers must contribute to all employees aged 21 or older who have worked for the business in at least 3 of the last 5 years and have received at least $600 in compensation for the year (as of 2021, subject to IRS updates).
- Uniform Contributions: Contributions must be equal for all eligible employees, including the owner, typically a percentage of each employee's compensation.

Small business owners who are sole proprietors without other employees may find a SEP IRA useful. Those with one or more additional employees who do not want to offer retirement benefits are less

likely to use this approach to fund their own retirement.

Contribution Limits and Timing

For 2024, contributions to a SEP IRA cannot exceed the lesser of 25% of an employee's compensation or $698,000 (this limit is subject to annual inflation adjustments). Unlike other retirement plans, the SEP IRA allows employers to decide each year how much to contribute, offering flexibility to adjust for the business's financial performance.

Contributions must be made by the employer's tax filing deadline, including extensions. This feature provides a valuable cash flow planning tool for businesses. If you have a profitable business and are getting close to your retirement date, this account may be a good way to accumulate a lot of funds in a retirement account in a shorter period of time.

SEP IRA Advantages

- High Contribution Limits: SEP IRAs allow for significantly higher contributions compared to traditional or Roth IRAs, facilitating accelerated retirement savings.
- Tax Benefits: Contributions are tax-deductible for the business, reducing taxable income.

- Flexibility: The ability to vary annual contributions gives employers the discretion to adjust for profitability fluctuations.
- Simplicity: SEP IRAs are easier and less expensive to set up and operate than many other retirement plans, with no filing requirements for the employer.

SEP IRA Disadvantages

- Sole Contribution Responsibility: Only the employer can make contributions, placing the financial burden solely on the business.
- Proportional Contributions: The requirement to contribute equally for all eligible employees can be costly for employers with many employees.
- Limited Employee Involvement: Employees cannot contribute to their SEP IRA accounts, which may limit their sense of participation in their retirement planning.

SEP IRA Small Business Owner Strategy

A small business owner can leverage a SEP IRA to effectively prepare for retirement in several ways:

- Maximizing Contributions: Especially in profitable years, maximizing contributions not only boosts retirement savings but also offers immediate tax benefits.

- Retirement and Tax Planning: Consulting with a financial advisor to balance contributions with tax planning can optimize both retirement savings and current tax liabilities.
- Employee Retention: Offering a SEP IRA can enhance a small business's benefits package, aiding in employee recruitment and retention.

SEP IRA Summary

For small business owners, SEP IRAs offer a mix of high contribution limits, tax advantages, and operational simplicity, making them an attractive option for both personal retirement savings and offering employee benefits. However, the inability for employees to contribute and the requirement for proportional employer contributions highlight the importance of careful financial planning. Every small business's situation is unique, consulting with a financial or tax advisor to tailor the SEP IRA approach is advisable, ensuring alignment with both immediate financial health and long-term retirement goals.

Savings Incentive Match Plan for Employees (SIMPLE)

The Savings Incentive Match Plan for Employees (SIMPLE) IRA is a retirement savings plan that

caters primarily to small businesses with 100 or fewer employees. It offers a simplified way to contribute toward the retirement savings of employees, including the business owner, through a combination of employee contributions and mandatory employer matches. Understanding the SIMPLE IRA's structure, requirements, and the strategic considerations for small business owners can help you understand its benefits and potential drawbacks.

SIMPLE IRA: Overview and Requirements

A SIMPLE IRA allows employees to contribute part of their pre-tax earnings to the plan, thereby reducing their taxable income. Employers are required to either match employee contributions dollar for dollar up to 3% of the employee's compensation or contribute 2% of each eligible employee's salary regardless of the employee's contributions.

To set up a SIMPLE IRA, a business must meet the following criteria:

- Eligibility: Have 100 or fewer employees who earned $5,000 or more during the preceding calendar year.
- Contribution Requirements: Commit to either matching employee contributions or

providing a non-elective contribution for all eligible employees.

Contribution Limits and Timing

For 2024, the contribution limit for employees is $16,000, with an additional catch-up contribution limit of $3,500 for employees aged 50 or over. The flexibility to contribute up to the IRS limit allows employees to save a significant portion of their income for retirement.

Contributions from employees must be made through payroll deductions throughout the year. Employers are required to make their matching or non-elective contributions by the employer's tax filing deadline, including extensions.

SIMPLE IRA Advantages

- Employee Engagement: Employees can contribute directly to their SIMPLE IRA, fostering a culture of saving and investment in their future.
- Tax Benefits: Employers can deduct their contributions on their business tax return, and employees benefit from pre-tax contributions.
- Simplicity and Low Cost: The plan is easier and less expensive to administer than many

other retirement options, with no annual filing requirements for the employer.
- Mandatory Employer Contribution: Ensures that all participating employees receive some employer contributions toward their retirement savings.

SIMPLE IRA Disadvantages

- Contribution Limits: Compared to some other retirement plans, the SIMPLE IRA has lower contribution limits, which might limit the growth potential of retirement savings.
- Mandatory Contributions: Employers must make contributions each year, regardless of the business's financial situation.
- Early Withdrawal Penalties: Withdrawals made before age 59½ are subject to taxes and a 10% penalty, which increases to 25% if the withdrawal is made within the first two years of plan participation.
- Retirement contributions must be made to all eligible employees, so businesses with employees do not have the option to contribute only to the owner's retirement account.

SIMPLE IRA Small Business Owner Strategy

Small business owners can use the SIMPLE IRA plan as a strategic tool for both retirement savings and enhancing their benefits package:

- Enhanced Employee Benefits: Offering a SIMPLE IRA can help small businesses compete for talent by enhancing their total compensation package.
- Tax Planning: Business owners should work with financial advisors to understand how contributions impact their tax situation and to strategize the best use of the plan for tax advantages.
- Balancing Contributions: Deciding between the match and non-elective contribution options allows business owners to balance the desire to incentivize employee contributions with the need to control costs.

SIMPLE IRA Summary

For small businesses looking for an easy-to-administer retirement savings option that encourages employee participation, the SIMPLE IRA presents a compelling choice. Its mandatory employer contribution ensures that employees receive benefits even if they choose not to contribute themselves, making it a valuable tool for employee retention and financial planning. However, the

requirement for annual contributions and lower contribution limits compared to other plans like the SEP IRA necessitates careful financial consideration by small business owners to ensure it aligns with their business objectives and financial capabilities. Consulting with a financial advisor can help tailor a SIMPLE IRA strategy that optimizes benefits for both the business and its employees.

401(k) Plans

401(k) Plans represent a versatile and widely adopted retirement savings option, especially favored by businesses of various sizes for their employees, including small business owners. These plans are structured to allow employees to contribute a portion of their pre-tax earnings, which not only reduces their current taxable income but also provides a platform for investment growth over time. Employers can enhance the plan's attractiveness with matching contributions, making 401(k) plans a cornerstone of corporate retirement benefits. Understanding the details, requirements, advantages, and strategic use of 401(k) plans can help small business owners effectively prepare for their and their employees' retirements.

The term “401(k)” sometimes confuses people. It does not refer to a specific amount of money, but instead to subsection 401(k) of the Internal Revenue

Code, where these personal pension accounts are defined.

401(k) Plan Overview and Requirements

A 401(k) plan allows employees to electively defer a portion of their salary to the plan, which is then invested in a range of options such as stocks, bonds, and mutual funds (more on investments later). Employers may contribute by matching a percentage of employee contributions, offering a flat contribution regardless of employee participation, or both.

Key requirements for establishing a 401(k) plan include:

- Plan Setup: Employers must adopt a written plan document, arrange a trust for the plan's assets, develop a recordkeeping system, and provide plan information to participating employees.
- Non-Discrimination Testing: To ensure the plan benefits all employees and not just highly compensated individuals, 401(k) plans must undergo annual non-discrimination testing, unless they opt for a Safe Harbor 401(k) plan which automatically satisfies these tests in exchange for mandatory employer contributions.

Various investment management companies have options that make it easy for small businesses to set up and maintain 401(k) plans.

Contribution Limits and Timing

For 2024, employees can contribute up to $23,000 to their 401(k) plans, with an additional $7,500 catch-up contribution allowed for participants aged 50 and older. The combined employee and employer contribution limit for 2024 is $69,000 ($76,500 for those aged 50 or over). These limits are subject to periodic adjustments by the IRS to account for inflation.

Employers must deposit employee contributions into the 401(k) plan as soon as they can be segregated from the company's assets, but no later than the 15th business day of the following month.

401k Advantages

- Tax Benefits: Contributions reduce taxable income for employees and are tax-deductible for employers, offering significant tax advantages to both parties.
- High Contribution Limits: Compared to other retirement plans, 401(k) plans have higher contribution limits, facilitating substantial retirement savings.

- Flexibility: Plans can be tailored with various features, such as the ability to borrow from an account and Roth options, adding to their appeal for a diverse workforce.
- Employee Engagement and Retention: Employer matching contributions can motivate employees to participate and stay with the company, enhancing its ability to attract and retain talent.

401k Disadvantages

- Difficulty and Costs: Establishing and maintaining a 401(k) plan can be more difficult and costly than other retirement plans due to administrative requirements, testing, and recordkeeping.
- Compliance and Testing Burdens: The requirement for non-discrimination testing (unless opting for a Safe Harbor plan) adds an additional layer of compliance difficulty.

401k Small Business Owner Strategy

Small business owners can strategically employ 401(k) plans by:

- Matching Contributions: Offering a matching contribution not only incentivizes employee participation but also enhances the

competitiveness of the business's benefits package.

- Safe Harbor Plan: Opting for a Safe Harbor 401(k) plan can simplify compliance and make the plan more attractive to employees through mandatory employer contributions.
- Roth 401(k) Option: Including a Roth option gives employees the choice between pre-tax and after-tax contributions, catering to different tax planning preferences.

401(k) Plan Summary

401(k) plans offer a good framework for retirement savings with tax advantages, high contribution limits, and the flexibility to tailor the plan to meet the specific needs of a business and its workforce. While they may present challenges in terms of difficulty and cost, the benefits of offering a 401(k) plan, including attracting and retaining a talented workforce, often outweigh these considerations. Small business owners considering a 401(k) should consult with financial and legal advisors to navigate the setup and ongoing management of the plan, ensuring it aligns with their business goals and employee needs.

Traditional Individual Retirement Account (IRA)

The Traditional Individual Retirement Account (IRA) offers individuals, including small business

owners, a straightforward and accessible way to save for retirement. Unlike the employer-sponsored plans previously discussed, individuals establish traditional IRAs themselves, making them an attractive option for those who may not have access to a workplace retirement plan or are seeking additional ways to save. This may be particularly useful to sole proprietors and other early stage small business owners who want to start saving for retirement but lack the funds for some of the accounts described earlier.

Understanding the nuances of Traditional IRAs, including eligibility, contribution limits, tax advantages, and potential drawbacks, is crucial for anyone looking to use this vehicle for retirement savings.

Traditional IRA: Overview and Requirements

A Traditional IRA allows individuals to contribute pre-tax income towards investments that can grow tax-deferred until withdrawals begin at retirement age. The primary allure of a Traditional IRA lies in its tax treatment: contributions may be fully or partially deductible on your tax return, which can reduce your taxable income for the year the contributions are made.

Eligibility to contribute to a Traditional IRA is straightforward:

- Earned Income: Contributors must have earned income such as wages, salaries, commissions, or self-employment income.
- Age Limit: As of the Tax Cuts and Jobs Act of 2017, there is no age limit for making contributions to a Traditional IRA. Previously, contributions were barred for those 70½ years old and above.

Contribution Limits and Timing

For the tax year 2024, individuals can contribute up to $7,000 to their Traditional IRA, with an additional $1,000 "catch-up" contribution allowed for those aged 50 and older. These contribution limits are subject to periodic adjustments by the IRS. Contributions can be made up until the tax filing deadline of the following year (typically April 15).

Traditional IRA Advantages

- Tax Deduction: Contributions to a Traditional IRA may reduce your taxable income for the year, providing immediate tax relief.
- Tax-Deferred Growth: Investments in a Traditional IRA grow tax-deferred, meaning you don't pay taxes on dividends, interest, or capital gains until you withdraw the funds.
- Flexibility: There are no restrictions on the types of investments you can hold in a

Traditional IRA, offering a wide range of investment choices to suit different strategies and risk tolerances.

Traditional IRA Disadvantages

- Taxation Upon Withdrawal: Withdrawals from a Traditional IRA in retirement are taxed at your current income tax rate, which could be higher or lower than your tax rate during your working years.
- Required Minimum Distributions (RMDs): Starting at age 72, account holders are required to take annual minimum distributions, which could force you to withdraw funds even if you don't need them, potentially leading to higher tax bills. RMD's are calculated by dividing the account balance by the average life expectancy taken from the IRS's Uniform Lifetime Table.
- Early Withdrawal Penalties: Withdrawals made before age 59½ are subject to a 10% penalty in addition to being taxed as income, although there are exceptions for certain situations like buying a first home or paying for education.

Traditional IRA Small Business Owner and Individual Strategy

For small business owners and individuals, Traditional IRAs offer a complement to other retirement savings efforts:

- Supplement Employer Plans: Individuals can contribute to a Traditional IRA even if they participate in an employer-sponsored plan, though the tax deductibility of IRA contributions may be phased out at higher income levels.
- Spousal IRAs: For non-working spouses, a working spouse can contribute to a Spousal IRA, which can help increase the household's total retirement savings. Under certain conditions, you may be able to use some of your business profits to fund a spouses IRA>
- Tax Planning: Strategic contributions to a Traditional IRA can be a valuable tax planning tool, potentially reducing taxable income during higher earning years.

Traditional IRA Summary

Traditional IRAs remain a fundamental component of many individuals' retirement planning due to their tax advantages, investment flexibility, and ease of setup. However, understanding the implications

of tax-deferred growth, future taxation of withdrawals, and the rules surrounding RMDs is essential for making the most out of this retirement savings vehicle. As with all financial planning tools, consulting with a financial advisor can help tailor an IRA strategy to your specific needs, ensuring it aligns with your overall retirement goals.

Roth Individual Retirement Account (IRA)

The Roth Individual Retirement Account (IRA) stands as a powerful tool in the retirement savings arsenal, notable for its distinct tax treatment and flexibility compared to the Traditional IRA. Established to cater to individuals looking to grow their savings tax-free, the Roth IRA allows for after-tax contributions with the promise of tax-free withdrawals in retirement. This feature makes it particularly appealing for those anticipating higher tax rates in their retirement years or seeking more withdrawal flexibility.

<u>Roth IRA: Overview and Requirements</u>

Contributions to a Roth IRA are made with after-tax dollars, meaning they are not deductible from your current income taxes. However, the trade-off comes in the form of tax-free growth and tax-free withdrawals, provided certain conditions are met. This includes the requirement that the account has been open for at least five years and that

withdrawals are made after the age of 59½, among other qualifying conditions.

Eligibility for contributing to a Roth IRA is primarily based on income:

- Income Limits: Contribution eligibility phases out for higher-income earners, with the limits adjusted annually by the IRS to reflect inflation.
- Contribution Rules: Individuals of any age with earned income within the IRS guidelines can contribute, making Roth IRAs accessible even to teenagers with part-time jobs or seniors who continue to work.

Contribution Limits and Timing

For 2024, the contribution limit for Roth IRAs is $7,000, with a $1,000 catch-up contribution allowed for those aged 50 and older. Contributions can be made up until the tax filing deadline of the following year, typically April 15th. However, high earners may find their contribution limits reduced or eliminated based on the IRS's income phase-out rules.

ROTH IRA Advantages

- Tax-Free Growth and Withdrawals: The most significant advantage of a Roth IRA is the ability to withdraw your contributions

and earnings tax-free in retirement, provided certain conditions are met.

- No RMDs: Unlike Traditional IRAs, Roth IRAs are not subject to Required Minimum Distributions (RMDs) during the account holder's lifetime, allowing for greater control over retirement funds.
- Withdrawal Flexibility: Contributions (but not earnings) can be withdrawn at any time without taxes or penalties, offering an emergency funding source if needed.

ROTH IRA Disadvantages

- Income Eligibility: High-income individuals (individuals with a Modified Adjusted Gross Income greater than $138,000, with higher limits for married couples) may be partially or fully phased out from contributing to a Roth IRA, although backdoor Roth IRA contributions offer a workaround for some.
- No Immediate Tax Deduction: Contributions do not reduce your taxable income in the year they are made, as they are made with after-tax dollars.
- Early Withdrawal Penalties on Earnings: While contributions can be withdrawn tax and penalty-free, earnings withdrawn before age 59½ and before the account is five years

old may be subject to taxes and penalties, with certain exceptions.

ROTH IRA Small Business Owner and Individual Strategy

For small business owners and individuals, a Roth IRA can serve several strategic functions:

- Diversification of Tax Exposure: By balancing contributions between Traditional and Roth IRAs, individuals can hedge against uncertainty in future tax rates.
- Long-term Growth: The tax-free growth feature makes Roth IRAs particularly suited for younger individuals or anyone with a long time horizon until retirement.
- Estate Planning: Since Roth IRAs are not subject to RMDs, they can be used as a tool for passing wealth to heirs more efficiently.

ROTH IRA Summary

The Roth IRA offers a unique combination of tax-free growth, withdrawal flexibility, and estate planning benefits, making it an attractive option for many savers. Its advantages are maximized by those who anticipate higher tax rates in retirement or who value the option to access their contributions without penalty. As with any financial planning decision, the choice to contribute to a Roth IRA

should consider one's broader financial situation, goals, and tax strategy. Consulting with a financial advisor can provide personalized insights, ensuring the Roth IRA aligns with an individual’s overall retirement planning objectives.

Self-Directed 401(k) Plan

A Self-Directed 401(k), often known as a Solo 401(k) or Individual 401(k), is a retirement savings plan designed for self-employed individuals or small business owners with no employees other than a spouse. This unique structure combines the high contribution limits of a traditional 401(k) with the flexibility to invest in a broader range of assets, making it an attractive option for entrepreneurs looking to maximize their retirement savings while having direct control over their investment choices.

Self-Directed 401(k): Overview and Requirements

The Solo 401(k) allows participants to make contributions both as the employee and the employer, significantly increasing the potential annual contribution compared to other retirement accounts. This dual contribution system leverages the business's profits for retirement savings, thereby accelerating the growth of the retirement fund.

Key requirements include:

- Eligibility: You must have self-employment income and no full-time employees other than your spouse.
- Contribution Limits: The total contribution limit is a combination of employee deferral and employer profit-sharing contributions, allowing for significantly higher total contributions compared to IRAs.

Contribution Limits and Timing

For 2024, the Solo 401(k) allows an employee deferral of up to $23,000 , or 100% of compensations, whichever is less (or $30,500 if age 50 or over), plus up to 25% of compensation as the employer, with a total limit of $69,000 ($76,500 including catch-up contributions for those over age 50). Contributions can typically be made up until the business's tax filing deadline, including extensions.

Self-Directed 401(k) Advantages

- High Contribution Limits: One of the most compelling features of a Solo 401(k) is the high contribution limit, allowing for rapid accumulation of retirement savings.
- Tax Benefits: Contributions reduce taxable income in the contribution year, offering significant tax advantages.

- Investment Flexibility: A Self-Directed 401(k) offers a broader range of investment options, including real estate, precious metals, and private businesses, not typically available in other retirement accounts.
- Loan Option: Participants can take a loan from their Solo 401(k), providing financial flexibility in case of emergency.

Self-Directed 401(k) Disadvantages

- Difficult Rules: Managing a Solo 401(k) can be difficult, particularly the self-directed aspect that requires due diligence and understanding of IRS rules regarding prohibited transactions.
- Administrative Responsibilities: The account holder is responsible for ensuring the plan complies with IRS regulations, which can be burdensome for some.

Self-Directed 401(k) Small Business Owner Strategy

For a small business owner, a Self-Directed 401(k) offers several strategic benefits for retirement planning:

- Maximize Savings: By contributing both as an employee and employer, small business owners can maximize their retirement savings, especially in profitable years.

- Diversified Portfolio: The ability to invest in a wide array of assets can help diversify retirement savings and potentially increase returns, though it also requires a higher level of investment knowledge and risk management.
- Tax Planning: Careful planning around contributions can optimize tax benefits, reducing taxable income significantly while growing retirement savings.

Self-Directed 401(k) Summary

A Self-Directed 401(k) provides small business owners and self-employed individuals with a powerful tool to accelerate their retirement savings, offering high contribution limits, tax advantages, and unparalleled investment flexibility. However, the difficulties and administrative responsibilities associated with these plans necessitate a proactive approach to management and a solid understanding of investment strategies. For those prepared to navigate these challenges, a Self-Directed 401(k) can be a key component of a sound retirement strategy, potentially securing financial independence in one's later years. As always, consulting with a financial advisor or tax professional can help ensure that this strategy aligns with broader financial goals and complies with current tax laws and regulations.

CHAPTER 3

Beyond Retirement Accounts

Any savings and investment with an eye toward the future might be considered part of your retirement planning – even if the intent is a separate future event such as college expenses or a wedding. The indirect benefit to retirement is that the growth in these investments may ensure the availability of future funds for retirement purposes by lessening competing demands for funds.

For small business owners who have already maximized their contributions to retirement-specific accounts, such as 401(k)s, IRAs, and Self-Directed IRAs, there remain several strategic pathways to further save or invest for retirement. While retirement accounts offer specific tax advantages, a diversified approach incorporating general savings and investment strategies can significantly enhance retirement readiness and financial security.

After maxing out retirement accounts, small business owners can explore a variety of avenues for additional savings and investments, each with its own set of advantages and considerations.

Taxable Investment Accounts

Taxable investment accounts, often referred to as brokerage accounts, are versatile financial accounts

where individuals can buy and sell assets like stocks, bonds, mutual funds, and ETFs. Unlike retirement accounts, these accounts do not offer tax-deferred growth, but they provide greater flexibility in terms of investment options and withdrawal timings.

A quick internet search will provide you with comparisons of reputable, low cost brokerage account for individual investors. Many have no fees and no minimum investment. Bear in mind that these brokerage firms are just the platform that enables your investments. You will still need to be diligent in making your investment choices.

Taxable Investment Accounts: Overview and Requirements

These accounts are crucial for investors seeking to maximize their investment opportunities beyond the limits of tax-advantaged retirement accounts. They require an understanding of investment strategies, tax implications, and asset management.

Key requirements include:

- Brokerage Account Setup: An account with a brokerage firm is necessary to trade securities.
- Investment Knowledge: A good grasp of different asset classes and their respective risks and returns.

- Capital: While there are usually no minimums to open an account, investing effectively typically requires sufficient capital to diversify and manage risk.
- Tax Strategy: Understanding of how capital gains, dividends, and income from investments are taxed.

Investment Types and Timing

Investors can choose from a vast array of assets within taxable accounts:

- Stocks and Equities: Offers potential for substantial growth but with higher volatility.
- Bonds: Provides a more stable income stream through regular interest payments, typically with lower risk(and lower returns) than stocks.
- Mutual Funds and ETFs: Allow for diversification across many assets through a single transaction. ETFs (Exchange-Traded Funds) are particularly popular for their lower expense ratios and tax efficiency.
- Real Estate Investment Trusts (REITs): Enables investment in real estate without the need to directly manage properties.

Advantages of Taxable Investment Accounts

- Flexibility: No limits on contributions and unrestricted access to funds without age-related penalties.
- Diversification: Ability to invest in a broad range of assets and markets.
- Tax Control: Through strategies such as tax-loss harvesting (offsetting taxable gains with losses) or holding investments long-term to benefit from lower capital gains tax rates (short-term capital gains are taxed at a higher rate).
- Liquidity: Funds can be withdrawn at any time without penalties, providing financial flexibility.

Disadvantages of Taxable Investment Accounts

- Tax Burden: Investments are subject to capital gains taxes and dividends are taxed as income, which can impact overall returns.
- Complexity in Tax Reporting: Tracking cost basis, dividends, and capital gains for annual tax filings can be cumbersome. Fortunately, many brokerage accounts automate this process.
- Market Risk: Exposure to the volatility of financial markets can lead to significant variations in investment returns.

Taxable Investment Strategy for Small Business Owners as Individuals

Taxable investments are a good passive option for supplemental investing for retirement that are outside the limits placed on formal retirement vehicles. They have a liquidity advantage over retirement accounts that allows funds from these investments to be pressed into service for unforeseen opportunities and challenges. Some think of their investments in these funds as ideally being for their future life, but also offering a reassuring hedge against the unknown.

For individuals utilizing taxable investment accounts, several strategic considerations should be considered:

- Asset Allocation: Tailoring the mix of stocks, bonds, and other investments to align with risk tolerance and investment goals.
- Tax Management: Employing strategies like tax-loss harvesting to offset gains with losses and holding investments long-term to qualify for lower capital gains tax rates.
- Regular Rebalancing: Adjusting the portfolio periodically to maintain desired asset allocation, which changes over time as different investments outperform others.

- Continuous Monitoring: Keeping an eye on market developments and adjusting strategies accordingly to optimize returns and manage risks.

Taxable Investment Summary

Taxable investment accounts offer significant flexibility and are an essential component of a comprehensive investment strategy, particularly for those who max out their tax-advantaged accounts or need ready access to funds. They allow investors to explore a wide range of investment opportunities and manage their taxes effectively through strategic buying and selling. However, the potential tax burdens and the need for active management mean that investors must stay informed and engage with financial professionals to maximize their investment efficiency and compliance with tax regulations.

Real Estate Investing

Real Estate Investing involves the purchase, ownership, management, rental, lease or sale of real estate for profit. This broad category includes residential properties, commercial real estate, timberland, and agricultural land, each offering unique opportunities and challenges.

Real Estate Investing: Overview and Requirements

Effective real estate investing requires understanding market trends, property management, and the financial acumen to handle diverse scenarios ranging from direct property investment to real estate investment trusts (REITs).

Key requirements include:

- Market Knowledge: Familiarity with property values, local market conditions, and legal requirements.
- Capital: Significant upfront capital or financing capacity to purchase properties.
- Management Skills: Ability to manage or delegate property management, including tenant relations, maintenance, and legal compliance.
- Diversification Strategy: Inclusion of different types of real estate (e.g., residential, commercial, timberland, agricultural) to spread risk.

Real Estate Investment Types and Timing

- Real estate investments can be categorized into several types, each with distinct timing considerations:
- Residential Real Estate: Involves properties such as houses or apartments. Investments

can provide rental income and potential capital appreciation but might require active management.

- Commercial Real Estate: Includes office buildings, shopping centers, and industrial properties. These investments often offer longer lease terms and higher income potential but come with larger initial investments.
- Timberland: Investment in forested land can yield returns from the sale of timber and appreciation of land value. Timberland serves as a natural hedge against inflation and provides environmental and tax benefits. For those in the forest products industry that prefer to invest in what they know, timberland can be a good option – especially if undervalued assets can be identified and acquired.
- Agricultural Land: Involves investing in land for farming or ranching. Returns can be generated through livestock, crop production, government subsidies, and land appreciation.

<u>Advantages of Real Estate Investing</u>

- Income Generation: Rental properties can provide a steady income stream through rent collection.

- Capital Appreciation: Over time, well-chosen investment properties can appreciate in value.
- Tax Benefits: Depreciation, mortgage interest deductions, and capital gains tax strategies can optimize after-tax returns.
- Diversification: Real estate has a low correlation with other asset classes, offering portfolio diversification benefits.

Disadvantages

- Liquidity: Real estate is not a liquid asset, making it difficult to sell quickly without potentially incurring losses.
- Management Overhead: Active management requires time, knowledge, and resources, especially for direct property investments.
- Market Risk: Property values and rental income can fluctuate based on local economic and environmental conditions.
- Annual property taxes can mean that some months or other time periods will have a negative cash flow.

Real Estate Investment Strategies for Small Business Owners as Individuals

Individuals will often strategically hold properties such as timberland and farms, even when leases or other cash flow only allows them to break even.

They plan for a timber sale or sale of the land at a strategic time that allows them an influx of cash for life event expenses or funding retirement accounts. Residential and commercial real estate may have an on-going positive cash flow that provides funds for these things. Those interested in real estate investment should consider several strategic actions:

- Research and Education: Understand the local real estate market, laws, and investment techniques. Long-term knowledge and familiarity with your local area has its advantages.
- Diversification within Real Estate: Include various types of properties such as residential, commercial, timberland, and agricultural lands in the investment portfolio to mitigate risks.
- Financial Analysis: Evaluate potential returns, assess cash flows, and calculate key investment metrics.
- Legal and Tax Advice: Consult with professionals to navigate complex real estate laws and optimize tax situations.

Real Estate Investment Summary

Real estate investing offers a robust avenue for wealth creation and diversification beyond traditional stocks and bonds. Investments can range

from residential rentals to specialty lands like timberland and agricultural plots, each offering distinct economic benefits and risks. Strategic investment in real estate not only promises capital appreciation and income generation but also provides tax advantages. However, the illiquid nature of real estate and the need for active management are significant considerations. Investors should conduct thorough market research, leverage professional advice, and maintain a diversified portfolio to navigate the complexities of real estate investing effectively.

Health Savings Account (HSA)

A Health Savings Account (HSA) is a tax-advantaged medical savings account available to taxpayers in the United States who are enrolled in a High-Deductible Health Plan (HDHP). The funds contributed to an account are not subject to federal income tax at the time of deposit. HSAs are designed to help save for current and future medical expenses, providing significant tax benefits and financial flexibility. For those who are eligible, these accounts are a great way to prepare for the future that is outside of traditional retirement savings and investment vehicles.

HSA Overview and Requirements

HSAs allow individuals to save for medical expenses that HDHPs may not cover. Contributions can be made by the individual or the employer, and funds roll over and accumulate year over year if not spent.

Key requirements include:

- Eligibility: You must be enrolled in a High-Deductible Health Plan.
- Contribution Limits: The IRS sets annual limits for contributions. For 2024, individuals can contribute up to $4,150, and families can contribute up to $8,300.
- Tax Treatment: Contributions are made with pre-tax dollars, earnings grow tax-free, and withdrawals for qualified medical expenses are tax-exempt.

Contribution Limits and Timing

Contributions to an HSA can be made up to the tax filing deadline for the year, typically April 15th of the following year. As noted earlier, in 2024, contributions limits are $4,150 for individuals and $8,300 for families. the limits are There are catch-up contributions allowed for those age 55 or older, permitting an additional $1,000 per year.

HSA Advantages

- Tax Efficiency: Contributions reduce taxable income, earnings on investments are tax-free, and distributions for qualified medical expenses are also tax-free.
- Flexibility: Funds can be used for a wide range of medical expenses not covered by health insurance plans, including deductibles, copayments, and prescriptions.
- Investment Potential: Some HSAs allow funds to be invested in stocks, bonds, mutual funds, and other investment vehicles, offering the potential for growth.
- Portability: HSAs are not tied to any particular employer, and the account stays with an individual regardless of employment changes.

HSA Disadvantages

- High-Deductible Requirement: To qualify for an HSA, one must be enrolled in a HDHP, which can mean higher out-of-pocket expenses. Those without HDHPs are ineligible.
- Complex Rules: Managing an HSA requires understanding specific IRS rules about eligibility, contributions, and withdrawals.

- Administrative Responsibilities: Account holders are responsible for ensuring that expenditures are for qualified medical expenses to avoid taxes and penalties.

HSA Strategy for Small Business Owners as Individuals

- For individuals with HDHPs, HSAs offer several strategic benefits:
- Manage Healthcare Costs: Contributions can be used strategically to manage high annual deductibles and other out-of-pocket healthcare expenses.
- Long-Term Savings: By investing in HSA funds, individuals can potentially build a substantial nest egg for healthcare costs in retirement.
- Tax Planning: Making the maximum allowed contribution reduces taxable income and maximizes tax savings over time.
- As a Retirement Savings Vehicle: The ability to use HSA funds for non-medical purposes after age 65 (20% penalty if used before age 65), subject to income tax, means that HSAs can complement other retirement accounts like 401(k)s and IRAs. Individuals can strategize to use HSA funds for non-medical expenses in years when their tax bracket may

be lower, potentially reducing their overall tax liability.

Health Savings Account Summary

A Health Savings Account offers a valuable financial tool for individuals with high-deductible health plans, enabling tax-advantaged savings for medical expenses. With high contribution limits, investment options, and portability, an HSA can significantly mitigate healthcare costs and provide financial security for future medical needs. However, the benefits come with the responsibility of managing the account according to complex IRS rules. Consulting with a financial advisor or tax professional is advisable to maximize these benefits while ensuring compliance with tax laws and regulations.

Universal Index Life Insurance (UIL)

Universal Index Life Insurance (UIL) is a type of permanent life insurance that combines the death benefit protection of traditional life insurance with the savings element of investment in index funds. Index funds are mutual funds or exchange traded funds (ETFs) designed to replicate the performance of a benchmark index. This policy is linked to a stock market index, such as the S&P 500, which provides potential for higher returns compared to traditional universal life policies that credit interest based on

the insurer's own investment portfolio. UIL offers flexibility in premium payments and death benefits, along with the opportunity for cash value growth tied to market performance, subject to certain caps and floors.

UIL Overview and Requirements

Universal Index Life Insurance policies provide a death benefit and a cash value account. The cash value's growth is partially dependent on the performance of a specific equity index, but comes with certain guarantees that minimize risk, such as a guaranteed minimum interest rate.

Key requirements include:

- Eligibility: Anyone can apply for a UIL policy, but the cost will vary based on age, health, and the amount of coverage desired.
- Premium Payments: Flexible premium payments are a hallmark of UIL, allowing policyholders to adjust their payments based on their financial situation.
- Interest Crediting: Interest is credited to the cash value based on changes in a stock market index, with safeguards such as a guaranteed minimum interest rate and caps on maximum gains.
- Death Benefit Options: Policyholders may choose between a level death benefit, or an

increasing death benefit tied to the cash value growth.

Contribution Limits and Timing

There are no fixed annual contribution limits for UIL like those that exist for retirement accounts; however, substantial contributions may require additional underwriting. Underwriting is the process by which insurers evaluate and assume the risk of a given insurance policy. Premiums can be adjusted annually to suit the policyholder's financial circumstances, and contributions beyond certain thresholds may turn the policy into a "Modified Endowment Contract" (MEC), changing its tax treatment.

UIL Advantages

- Tax-Deferred Growth: The policy's cash value increases on a tax-deferred basis, which can enhance growth potential over time.
- Financial Flexibility: Premiums and death benefits can be adjusted as the policyholder's financial needs change.
- Potential for Higher Returns: Linking the cash value to a stock index can potentially result in higher returns compared to a fixed interest rate, especially in a strong market environment.

- Risk Mitigation: Floors on the interest rate prevent the cash value from declining, even if the linked index performs poorly.
- Once sufficient cash value has accumulated in a UIL policy, the owner may borrow against it for any purpose, though these loans do require repayment, with interest.

UIL Disadvantages

Market Risk: While there are protections like caps and floors, returns are still dependent on market performance, which can vary.

Complexity: The mechanisms of crediting interest based on an index, along with managing caps, floors, and other features, make UIL policies more complex than other life insurance products.

Costs: Fees and insurance charges can reduce the cash value, especially in the early years of the policy. These costs might include premium loads, cost of insurance charges, and administrative fees.

UIL Strategy for Small Business Owners as Individuals

Small business owners who have maxed out their formal retirement account contributions may choose to invest in a UIL to prepare for their future in a variety of ways.

- Long-Term Financial Planning: UIL can be used as part of a diversified financial plan, offering life insurance protection while also serving as a long-term investment due to its tax-advantaged growth.
- Estate Planning: The death benefit can help manage estate taxes and provide for heirs, making UIL a strategic tool for estate planning.
- Supplemental Retirement Income: Over time, the policy's cash value can grow significantly, providing supplemental income through loans or withdrawals in retirement.

Universal Index Life Insurance Summary

Universal Index Life Insurance offers a unique combination of protection and potential investment growth, linked to the performance of a stock market index but with certain guarantees that protect the policyholder's interests. While offering financial flexibility and potentially higher returns, UIL requires careful consideration due to its complexity and the costs involved. Consulting with a financial advisor **who does not earn commissions for UIL sales** to fully understand how UIL fits into your overall financial strategy is highly recommended.

CHAPTER 4

Social Security(?)

Social Security remains a pillar of retirement planning in the United States, offering a financial safety net to millions of retirees, disabled individuals, and families of deceased workers. Established in 1935 as part of the New Deal, it is a mandatory federal insurance program funded through payroll taxes under the Federal Insurance Contributions Act (FICA). Social Security is designed to provide a continuous income stream to individuals who have retired or are unable to work due to disability, thereby contributing to their financial stability and well-being in later life. You have almost certainly been paying money into this program for your entire working life.

Understanding Social Security Benefits

For retirees, Social Security benefits represent an important part of their retirement income – something they have earned from years of required payments of a portion of their earnings to the Social Security trust fund. The benefits an individual receives are primarily based on their thirty-five highest-earning years, adjusted for inflation. This is based on the program's intent to replace a percentage of a worker's pre-retirement income. The retirement benefits are intended to supplement

other sources of retirement income, such as pensions, savings, and investments, rather than serve as the sole source of support.

The full retirement age (FRA), the age at which an individual is eligible to receive full retirement benefits, varies depending on the year of birth. This age gradually increases from 65 to 67 for those born in 1960 and later. While individuals may opt to start receiving benefits as early as age 62, doing so results in a reduction of the monthly benefit amount to account for the longer anticipated payout period. Conversely, delaying the initiation of benefits past the FRA can increase the monthly benefit amount, up to age 70.

Social Security Benefits for Small Business Owners

For small business owners, Social Security represents both a personal safety net and a factor in their broader retirement planning strategy. As self-employed individuals, small business owners are responsible for paying the full FICA tax rate, covering both the employee and employer portions, which emphasizes the importance of accurate income reporting and tax planning throughout their careers.

The role of Social Security in a small business owner's retirement plan cannot be understated. It

offers (hopefully) a foundation of guaranteed income that is unaffected by market fluctuations, business performance, or other financial uncertainties. This reliability makes Social Security a critical consideration in determining when to retire, how much to save in other retirement accounts, and how to plan for business succession or sale.

Understanding the impact of Social Security benefits can influence a small business owner's decision regarding business structure, salary, and dividend distributions. These decisions affect their reported earnings and their Social Security benefits. Strategic planning, in consultation with financial and tax advisors, can optimize both the business's financial health and the owner's individual retirement outcome.

For small business owners, this program is a reminder of the dual focus required to manage both the immediate needs of their business and their long-term personal financial well-being. As part of a comprehensive retirement strategy, Social Security benefits complement personal savings, investment income, and potentially proceeds from the sale of the business, to support a comfortable and secure retirement.

Social Security remains an important aspect of retirement planning, offering essential support to retirees, including small business owners. Its benefits, based on a lifetime of earnings, provide a steady income in retirement, reinforcing the importance of diligent financial planning and savings. For small business owners, integrating Social Security into their retirement planning involves quantifying expected benefits and factoring them into their fuller retirement planning strategy.

Social Security Benefit Assessment

The Social Security Trust Fund is considered underfunded, based on projected long-term needs. If this situation is not addressed, the odds of actually collecting Social Security in retirement decrease for younger current workers. Those who are planning for retirement would be remiss if they did not take this into consideration.

The Social Security Trust fund is expected to be depleted in the year 2035, according to a 2022 Social Security Trustees Report. In the absence of any corrective action by the federal government, this will have significant impacts on the ability of current workers and small business owners to collect from this system when they retire. Let's look at what this means for workers of various current ages, assuming a retirement age of 67.

Workers who are ages 25 to 45 in 2024 would find that only about 80% of scheduled benefits could be paid from ongoing payroll tax revenues when they retire.

Workers who are ages 46 to 55 years old in 2024 can expect to retire just as the Social Security Trust Fund is insufficient to pay out full benefits. It is possible they will start their retirement receiving full benefits and then find them scaled back to 80% of the scheduled amount in future years.

With so many people impacted by the expected shortfall in the Social Security Trust Fund, it seems likely that some corrective action will be taken. It seems equally likely that an unintended consequence of such action will be inflationary in the general economy.

Further estimates and discussions in this chapter assume that the Social Security Trust Fund will be solvent.

Determining your Expected Social Security Benefits

Calculating precise Social Security retirement benefits for a small business owner—or any individual, for that matter—years in advance involves numerous assumptions about future earnings, inflation, and changes to Social Security

laws. Despite this, projections are still possible, and it is worthwhile to look at an example.

Let’s look at how Social Security benefits are determined and what factors could influence the benefits for a small business owner making $75,000 per year at age 25 and retiring at age 67.

How Social Security Benefits Are Calculated:

1. Earnings Record: Your Social Security benefits are based on your earnings record. The Social Security Administration (SSA) adjusts your annual earnings up to the maximum taxable limit to account for changes in average wages over your working lifetime.

2. AIME: The SSA calculates your Average Indexed Monthly Earnings (AIME) by averaging your adjusted earnings over the 35 years in which you earned the most.

3. Benefit Formula: The SSA then applies a formula to your AIME to determine your Primary Insurance Amount (PIA), which is the benefit you would receive at your full retirement age (FRA), currently 67 for anyone born in 1960 or later.

Factors Influencing Future Benefits:

1. Future Earnings: Since the benefits are calculated based on the thirty five highest-earning years, if a 25-

year-old business owner continues to grow their income beyond $75,000, their AIME will increase, potentially leading to higher benefits.

2. Inflation Adjustments: The SSA adjusts past earnings for inflation and also applies cost-of-living adjustments to benefits once you start receiving them, which can significantly affect the benefit amount by the time you reach age 67.

3. Legislative Changes: Social Security is subject to legislative changes, which could alter benefits calculations, retirement age, or taxable earnings caps.

<u>Estimating Benefits:</u>

While it's difficult to predict exact benefit amounts without knowing future earnings and legislative changes, a small business owner can get a rough estimate using the SSA's online calculators or by creating a “my Social Security” account on the SSA website. As of now, for someone making around $75,000 annually and adjusting for future wage growth and inflation, it's reasonable to anticipate a monthly benefit that replaces approximately 40% of your pre-retirement income if retiring at FRA. This is a rough estimate, and the actual figure could vary significantly.

A 25-year-old small business owner making $75,000 per year has the potential to accrue significant Social Security retirement benefits by the time they reach age 67. Assuming this 25-year-old small business owner continues to pay the required Social Security taxes consistently over their 42-year career (from age 25 to 67), they could potentially receive a monthly Social Security retirement benefit in the range of $2,000 to $2,500 per month at age 67. The same is true of a small business owner who is 35. For a small business owner that is 45, the estimate is $1,800 to $2,200 per month. For a small business owner that age 55, the estimate is $1,600 to $2,000 per month.

How to Get your Social Security Estimate

Here are the key steps a small business owner can take to look up an estimate of their Social Security retirement benefit amount:

1. Create a *My Social Security Account* on the Social Security Administration's website (www.ssa.gov)

2. Review *Your Earnings History* in your My Social Security Account. You can view your full earnings history going back to when you first started paying Social Security taxes. This will allow you to see your thirty-five highest-earning years, which is what Social Security uses to calculate your retirement

benefit amount. Note any errors and follows the steps given on the website to correct them.

3. Use the *Social Security Benefit Calculators.* This calculator allows you to input your potential retirement age and earnings to estimate your benefits. Do this for a range of potential retirement ages to understand the full range of your options.

By following these steps, a small business owner can get a good estimate of their likely Social Security retirement benefits based on their personal earnings history and planned retirement age. This information is an important part of your retirement planning process. It is especially useful to bear in mind when using the Rule of 25 to calculate your financial needs in retirement, as discussed in one of the chapters that follows.

CHAPTER 5

How Much is Enough?

How much money do you need in your retirement savings portfolio to enjoy the standard of living you expect? Knowing the answer to this question is the first step in figuring out a plan to get there.

Financial advisor William Bengen provided useful guidance for answering this question when he devised the 4% Rule (Bengen, 1994). He believed a person who has enough money to retire will be able to live on 4% of their savings annually. Bengen referred to this as the SAFEMAX rate, as shorthand for the maximum safe historical withdrawal rate. He later revised this rate to 4.5% for tax-free withdrawals and 4.1% for withdrawals that are taxable.

This 4% guideline, by itself, does not tell you how much you need in savings when you retire. A study done at Trinity College, conducted by Philip Cooler, Carl Hubbard and Daniel Walz (1998) arrived at the Rule of 25, as an extension of the 4% rule. The Rule of 25 states that you will need 25 times your annual living expenses in your portfolio.

Applying the Rules and Determining Financial Needs

Let's consider a practical example with Ernie, a 50-year-old logger who feels himself inching closer to the end of his career. Ernie would like to retire someday but doesn't know how much money he will need. The Rule of 25 can help figure this out.

Step 1: Determine Annual Retirement Expenses

Ernie and his wife Lettie estimates that their annual expenses in retirement will be $40,000 – at least the part that must be supported by retirement savings. A few facts support this valuation. Their home is paid for, and the taxes are manageable. They have no current personal debts, and the eventual sale of his logging equipment will retire all Ernie's business debts. It looks like they will be able to count on a combined $3,000 in monthly social security benefits and will rely on Medicare for their health care expenses.

To ensure a comfortable retirement, Ernie and Lettie aim to cover the $40,000 expenses using only their investment income, thus preserving their principal as much as possible.

Step 2 Apply the Rule of 25

Using the Rule of 25, Ernie multiplies his annual expenses by 25:

40,000 x 25 = $1,000,000

It follows that Ernie will need a $1 million retirement portfolio to comfortably retire while only withdrawing from the portfolio's income and gains.

Step 3: Implementing the 4% Rule

Once Ernie and Lettie retire, they plan to withdraw 4% of their initial retirement savings annually, adjusting for inflation each year. Here's how it breaks down:

$1,000,000 x 0.04 = $40,000

This amount is exactly what Ernie and Lettie need per year, as per their earlier estimate. The 4% withdrawal rate not only simplifies her annual budgeting but also provides a guideline that reduces the risk of outliving their savings.

Fortunately for Ernie, the eventual sale of his logging equipment, coupled with the couple's current retirement savings and continuing to fully fund a Roth IRA for the next seventeen years will allow them to exceed their retirement savings goal, if only by a small amount.

Suppose Ernie and Lettie were behind on their retirement savings? What if doing more of the same would leave them short of what they will need? Fortunately, they would still have time to get back

on track. This would require further planning, prioritization of income, and close attention to the advice of a financial planner (as well as a careful reading of the Routes to Retirement guide!)

Rule of 25 Review – How to Make Your Own Calculations

It is well worth taking a few minutes to apply the rule of 25 to your own situation. Even a simple back of the envelope calculation of your retirement savings needs is a step in the right direction. This simple formula can help you estimate the nest egg required to fund a comfortable retirement without the risk of depleting your savings prematurely.

Here's a general guide on how to apply the Rule of 25 to your retirement planning:

<u>Step 1: Estimate Your Annual Retirement Expenses</u>

Begin by carefully estimating your annual expenses in retirement. Consider all potential costs, including housing, food, medical care, leisure activities, and unexpected expenses. Your current situation is a good starting point. Adjust your current expenses to reflect changes that will occur after retirement, such as a paid-off mortgage, changes in transportation costs, and higher healthcare expenses. For instance, if you anticipate your annual retirement expenses to

be around $80,000, this figure will serve as the basis for further calculations.

Step 2: Apply the Rule of 25

Using the Rule of 25, calculate the total savings needed to cover your retirement expenses sustainably. Multiply your estimated annual expenses by 25:

$8,000 x 25 = $2,000,000

This calculation suggests you need to amass $2 million by the time you retire. The rationale behind this multiple is that it allows for a safe withdrawal rate of 4% per year, aligning with historical market conditions and investment returns.

Step 3: Assess Your Current Savings and Plan Future Contributions

With your target retirement savings in mind, assess how much you currently have saved and how much more you need to save:

$2,000,000 - current savings = additional savings needed

Don't despair if this amount seems overwhelming to you. If it looks like you are behind, you are not alone. Three things are working in your favor most of the time. First, be sure you are counting all the assets that will be available to you, not just those in

retirement accounts. Second, in general, most people earn more money in the later years of their work life, even as expenses may decrease after you pay for your home and your children are grown. Third, compounding means that the value of your current and future assets and savings should continue to increase their value.

The Rule of 25 provides a clear and straightforward framework for planning your retirement savings. This approach not only gives you a specific savings target but also aligns with a sustainable withdrawal strategy that minimizes the risk of outliving your resources. By tailoring this guideline to your personal financial situation and regularly updating your strategy, you can approach retirement with greater confidence and security. Remember, while the Rule of 25 is a helpful starting point, personal circumstances might require adjustments and careful consideration, potentially with the assistance of a financial advisor.

Through this narrative, it is clear how the 4% Rule and the Rule of 25 interlink to guide and inform retirement planning. They provide an empirical, data-driven path to financial independence after your working life.

With the amount of retirement investment savings determined, the next question is one of determining the best route to get there.

CHAPTER 6

Certified Financial Planners and Related Professionals

A Certified Financial Planner (CFP) is a professional with a formal recognition that signifies they have met a high standard of competence and ethics in financial planning. This certification is often seen as a gold standard within the financial planning profession, awarded by the Certified Financial Planner Board of Standards in the United States. To become a CFP, candidates must complete a comprehensive course of study in financial planning, pass a rigorous exam, and have several years of on-the-job experience. A CFP must adhere to a strict code of ethics and complete continuing education courses to maintain their certification.

For small business owners, preparing for retirement is a multifaceted challenge that requires strategic planning and foresight. Small business owners often have their wealth tied up in their business. This can make retirement planning more difficult than it is for employees. This is where working with a CFP comes into play.

How can a CFP Help You?

As a start, a CFP can help small business owners understand their current financial situation. This is

done by making a detailed analysis of the business’s finances, including cash flow, debt, assets, and liabilities. Good record-keeping simplifies this analysis. Understanding the business's financial health is crucial for planning future retirement steps.

Secondly, a CFP can assist in setting realistic retirement goals. This includes determining the required retirement income and the desired retirement age. The Rule of 25 that was discussed in an earlier chapter is a convenient guideline, but a CFP can help make calculations more specific to your situation. Given the unique financial situation of small business owners, these goals need to consider both personal and business finances.

Many small business owners only vague ideas about long-term plans for their business and eventual retirement. Retirement planning helps crystallize these ideas and intentions. A major aspect of retirement planning for small business owners is deciding the business's fate upon retirement. A CFP can explore options such as selling the business, passing it on to family members, or hiring a management team to run it. Each option has different financial implications for retirement planning, and a CFP can help evaluate which option aligns best with the owner's retirement goals and financial needs.

Investment advice is another critical area where CFPs assist small business owners. They can offer strategies to diversify investments to reduce risk, including investing in retirement accounts specifically designed for small business owners, such as SEP IRAs, SIMPLE IRAs, and Solo 401(k). By diversifying investments outside of the business, owners can build a retirement portfolio that is not solely dependent on the fate of their business.

Tax planning is a crucial part of retirement preparation where CFPs add significant value. They suggest tax-efficient income strategies for retirement and plan for the tax implications of selling or passing on the business. Proper tax planning significantly impacts the available retirement income and the transitioning business's financial health.

Lastly, a CFP can assist in creating a comprehensive estate plan. This ensures that the small business owner's assets are distributed according to their wishes upon their death and can include strategies to minimize estate taxes, providing for a smoother transition of the business and assets to heirs. While estate planning is beyond the scope of this publication, it is logical to integrate this with retirement planning for those who are later in their careers

In summary, Certified Financial Planners can play a large role in helping small business owners with the difficult and often confusing process of retirement planning. Their expertise in financial analysis, goal setting, investment strategies, tax planning, and estate planning can provide small business owners with a roadmap to achieve a financially secure retirement while ensuring the continuity or appropriate disposition of their business. This holistic approach to financial planning enables small business owners to face retirement with confidence, knowing that both their personal and business finances are in order.

Considerations in Hiring a CFP

Engaging a Certified Financial Planner (CFP) can be a pivotal step in managing your finances, whether you're an individual aiming for personal financial goals or a business owner strategizing for growth and stability. The role of a CFP extends beyond mere advice; it is a partnership that can significantly shape your financial route. However, like any weighty decision, hiring a CFP comes with its set of pros and cons, each worth considering.

The expertise of a CFP is undeniably one of the primary reasons individuals and businesses seek their services. These professionals bring a wealth of knowledge in various financial domains, such as

investments, tax planning, estate planning, and insurance. This comprehensive understanding allows them to craft holistic financial strategies that consider all facets of one's financial life. Tailored advice is another cornerstone of their service. CFPs excel in customizing their recommendations to fit the unique circumstances and goals of their clients, ensuring that each plan reflects the individual's or business's specific needs and aspirations.

Accountability and discipline are further benefits that come with working with a CFP. They not only guide you through the planning process but also help you stay on track towards your financial goals, encouraging a systematic approach to saving, investing, and spending. This can be particularly beneficial for those who find it challenging to adhere to a financial plan. Additionally, CFPs prove invaluable in both proactive and reactive financial planning. They help you prepare for future goals and also stand by you in times of financial crisis, offering advice and adjustments to navigate through unexpected challenges.

The convenience of having a CFP manage your finances cannot be overstated. Delegating this task to a professional can save you time and alleviate stress, allowing you to focus on other important aspects of your life or business. It is really no different than hiring anyone else with skills that you

lack, in order to make your business better. Careful evaluation of the individual is important to ensure you find someone competent that you trust and enjoy working with.

Despite these advantages, there are considerations that might make you hesitant. The cost of hiring a CFP can be a significant factor, with fees varying widely based on their payment structure and the difficulty of your financial needs. This expense may not seem justifiable to everyone, especially those with simpler financial situations or who are early in their business life. Small business owners who have watched their expenses carefully for years are often reluctant to spend money on something they can ignore, at least in the short run.

The potential for conflicts of interest presents another concern. This is particularly true of CFPs who earn commissions on products they sell. There is a risk that their recommendations might be influenced more by personal gain than by what's best for the client. It's crucial to understand how your CFP is compensated to mitigate this risk. An arrangement that aligns both your interests is best. Any advisor who gives you self-serving advice really is not doing what you have hired them to do.

An over-reliance on a financial planner is another potential downside. There's a danger in becoming

too dependent on a CFP, which could lead to a disengagement from one's own financial affairs. It's important to remain involved and informed, even when entrusting your finances to a professional. Use your interactions with a CFP to educate yourself and don't be afraid to ask questions about anything you don't understand.

Bear in mind hiring a CFP doesn't guarantee financial success. External factors such as market conditions and economic shifts, as well as unexpected life events, can still impact your financial landscape. Think of it this way – a well-qualified and properly motivated CFP can put you on the right path, but they cannot guarantee the weather along the way.

Lastly, finding the right CFP can be a challenge in itself. The search for a planner whose expertise aligns with your financial goals and with whom you feel comfortable discussing personal finances can require time and effort. It is important not to be derailed in this search if it takes some time to find the right fit.

In summary, the decision to work with a CFP should be made with careful consideration of these factors. For those struggling with the enormity of retirement planning or seeking guidance in achieving their financial objectives, the benefits of such a

partnership can be substantial. Approach this decision with a clear understanding of the costs involved and the potential for conflicts of interest and the importance of maintaining an active role in your financial planning process. By doing so, you can ensure that your choice to hire a CFP aligns with your financial goals and personal values, setting the stage for a successful financial future.

The next section explains more of what you should expect in dealing with a CFP.

Core Expertise of CFPs

As mentioned earlier CFPs undergo rigorous training and certification processes that cover a wide range of financial planning topics. This includes understanding clients' financial situations comprehensively, setting realistic financial goals, and developing comprehensive plans that address various aspects of personal finance. These aspects often include budgeting, debt management, insurance, tax planning, retirement planning, estate planning, and more.

Their training emphasizes a holistic approach to financial planning, ensuring that all pieces of a client’s financial life work together in harmony towards the client's goals. This holistic perspective is about fitting various financial strategies and

products into an overarching plan rather than focusing solely on selecting investments.

Investment Recommendations and CFPs

While CFPs are equipped to evaluate investment options within the context of a broader financial plan, their role is not synonymous with that of investment analysts or portfolio managers, whose primary focus is on picking stocks, bonds, or other securities. CFPs can indeed recommend types of investments (e.g., mutual funds, bonds, stocks) based on the client's financial goals, risk tolerance, and timeline. However, the emphasis is on ensuring these investment recommendations fit into the larger financial picture rather than guaranteeing the performance of specific investments. Their job is not to give you hot tips on individual stocks.

CFPs are bound by fiduciary duty when offering financial advice, meaning they are obligated to act in their clients' best interests. This fiduciary responsibility includes providing investment advice that aligns with the client's objectives and financial situation but does not necessarily entail deep expertise in selecting individual securities.

Depending on your goals and the extent of your investments, you may wish to engage with other financial experts who are not certified professional planners.

The Importance of Investment Experts

For clients seeking specific investment picks or detailed analysis of individual securities, a financial advisor with a focus on investments or a portfolio manager might be more appropriate. These professionals often have specialized training and experience in analyzing market trends, evaluating stocks and bonds, and building investment portfolios designed to maximize returns for a given level of risk.

Many CFPs collaborate with investment specialists when detailed investment advice is needed, ensuring their clients receive comprehensive financial guidance. This collaborative approach allows CFPs to maintain their focus on the broader financial plan while leveraging the expertise of investment professionals for the selection of individual securities.

The expertise of a Certified Financial Planner lies in their ability to develop comprehensive financial plans that address all facets of an individual's or family's financial life. While they can guide investment strategy as part of this broader plan, their role is distinct from that of investment professionals who specialize in selecting and recommending individual investments. Understanding this difference is crucial for clients to

align their expectations with the services provided by their financial advisors and to seek additional expertise when needed for specific investment decisions.

Other Financial Professionals

There are legitimate retirement planning professionals who are not certified financial planners (CFPs). While CFP certification is a respected credential in the financial planning industry, indicating a broad and deep knowledge of financial planning, there are other professionals with different qualifications who can also provide sound retirement planning advice.

Here are a few types of professionals who might be involved in retirement planning:

<u>Chartered Financial Analyst (CFA):</u> Focuses on investment management, including portfolio creation, asset allocation, and wealth management. While not specific to retirement planning, their skills are highly applicable.

<u>Certified Public Accountant (CPA):</u> Especially those who have a Personal Financial Specialist (PFS) designation, can offer financial planning advice including aspects relevant to retirement, like tax strategies and estate planning.

Retirement Income Certified Professionals (RICP): Specialize in retirement planning, with a focus on developing retirement income strategies for clients at or near retirement.

Chartered Financial Consultant (ChFC): This designation covers a broad range of financial planning topics similar to the CFP, with no less rigor in curriculum, but a different structure in terms of certification and ongoing education.

Enrolled Agents (EA): Professionals who specialize in tax matters and are authorized by the federal government to represent taxpayers before the Internal Revenue Service (IRS). While they are tax specialists, they often provide financial planning related to retirement from a tax perspective.

Registered Investment Advisors (RIA): Professionals or firms who provide personalized financial advice to their clients, many of whom specialize in retirement planning. They must register with either the Securities and Exchange Commission or state securities administrators.

Selecting the Right Professional

Choosing the right professional depends on your specific needs. If you need help with a variety of financial planning areas, a CFP might be appropriate. However, if you have specific needs,

such as tax advice, an EA or CPA might be better. Always ensure that the professional you choose is properly licensed and has a good reputation. Check their background through relevant regulatory bodies like the SEC, FINRA, or state boards.

While CFPs are highly qualified, there are multiple pathways to becoming a legitimate and effective retirement planning professional. The key is to understand your own needs and select a professional whose qualifications and expertise align with those needs.

CHAPTER 7

Planning as a Conscious Act

Planning for retirement as a small business owner is a difficult but crucial process that involves blending personal financial planning with the strategic planning of the business's future. This comprehensive approach ensures that business owners can achieve their desired retirement lifestyle while maximizing the value of their business as a key asset in their retirement plan.

Important components of planning for retirement include assessing retirement goals, understanding the value of the business, diversifying investments, planning for the sale or transfer of the business, reducing personal liability, consulting professionals, conducting regular reviews and adjustments, and preparing for life beyond business. Each topic will be examined in turn. Following this, some commonalities in routes to retirement are discussed, setting the stage for individual case studies.

Assess Your Retirement Goals

The first step in retirement planning is to clearly define what you envision for your retirement, including your lifestyle, living arrangements, and activities you wish to pursue. Estimating the costs associated with your retirement lifestyle will help in

setting a financial goal. This involves calculating living expenses, healthcare costs, travel budgets, and any other significant expenditures you anticipate during retirement.

In his insightful book, *Plan Your Prosperity*, Fisher (2013) says the most common regret among retirees is not starting to save for retirement early enough. An earlier start allows you to take better advantage of compound interest. Starting early preserves options. Even if the specific details of retirement are too far down the road for clarity at the present time, making a start on saving and investing allows you to do some of the fine tuning as clear goals emerge.

Understand the Value of Your Business

Understanding the current and future fair market values of your business is essential, as it is often the primary source of retirement funds for many small business owners. "Understanding the market dynamics that affect the value of your business can significantly influence your retirement timing and comfort." (Titus, 2019). If you are still in the building phase it is important to know what you are working toward and how you can value these assets in the future.

Valuing a business involves obtaining a professional valuation of the business to grasp its worth and potential sale price. Additionally, identifying if and

how your business can continue to provide income after you retire, through dividends or other mechanisms, is a critical part of this process.

Often sole proprietors must face the reality that most of the value of their business is their own effort and that without them, the real value is whatever the equipment, real estate or other assets will bring in a sale. If this is true of your business, the sooner you realize it and factor it into your plans, the better.

Plan for the Sale or Transfer of Your Business

Developing a clear exit strategy for your business is crucial, whether you plan to sell, pass it down to family members, or dissolve it. If planning a sale or transfer, grooming a successor and ensuring all business documentation is well-organized and up to date will facilitate a smoother transition. This process should also consider the legal and financial implications of the sale or transfer.

Turnkey businesses that could continue to operate without the owners direct involvement can often be sold intact. Good record keeping is necessary to demonstrate the value of such businesses. Alternatively, businesses of this type might also be operated by a properly motivated and incentivized manager and continue to provide regular income for the owner.

Reduce Personal Liability

Protecting personal assets from business liabilities is another important aspect of retirement planning. Choosing the right business structure, such as an LLC or S Corporation, can offer this protection.

An LLC, or Limited Liability Company, is a business structure allowed by state statute that can be used to run a business or hold assets. It has several advantages for small business owners, including less formality than other structures, a pass-through taxation option and protection of personal assets outside the business.

An S Corporation is a special type of corporation created through an IRS tax election. It is designed to avoid the double taxation that C corporations experience at the corporate and individual levels. This structure also give limited liability protection to shareholders.

Additionally, maintaining adequate insurance coverage, including liability, property, life, and disability insurance, is essential for safeguarding against unforeseen events.

Regular Review and Adjustments

Retirement planning is an ongoing process that requires regular review and adjustments. Annual evaluations of your financial situation, business

performance, and personal goals are necessary to ensure your retirement plan remains aligned with your evolving needs and circumstances.

"Personal finance is not rocket science—it's even harder because it's about managing behavior rather than numbers. The biggest factor in financial success is not the returns on your investments but your behavior over time." (Fisher, 2013). Recognize the importance of financial planning by making it a habit to make regular reviews. Checking your portfolio on a daily basis would be an unhealthy obsession. Checking in on it once each quarter and not overreacting to the ups and downs that most investments go through is a sound approach.

If your retirement trajectory is not taking you toward you financial goals, check with financial advisors about a course correction. People often find they can save more aggressively as they age and pass major milestones in life.

Prepare for Life Beyond Business

Preparing for life after business involves more than just financial planning. Developing interests, hobbies, and social networks outside of your business can lead to a more fulfilling retirement. The general process and advice offered in this chapter applies in each of the situations.

The three short sections that follow (Psychological Aspects of Saving, Health Planning, and Emergency Planning) should be a standard part of any route to retirement.

Psychological Aspects of Saving

Finally, fostering a strong psychological connection with his future self can motivate Josh to prioritize long-term financial well-being alongside business growth. Tools like the CFPB's Future Self Tool can help Josh visualize his future self, making retirement planning more tangible and compelling (CFPB, 2021). Habituating the act of investing money for retirement at an early age is a great way to commit to a system that delivers your goals.

Healthcare Planning

As healthcare costs can significantly impact retirement savings, Ryan should explore options such as Health Savings Accounts (HSAs) and long-term care insurance. These can mitigate the risk of unexpected medical expenses eroding his retirement nest egg.

Additionally, understanding healthcare options, including Medicare and supplemental insurance, is crucial for ensuring you have the coverage you need in retirement. While Medicare eligibility starts at 65, the choices he makes regarding coverage options

can significantly impact retirement savings. Understanding the parts of Medicare and the associated costs is critical, especially considering health care's substantial role in retirement expenses (SSA, 2024).

Emergency Savings and Insurance

Given the physical demands and risks associated with logging, maintaining a well-funded emergency savings and insurance (health, disability, and business) is crucial. Most financial experts recommend emergency savings in an amount equal to three to six months of living expenses. This not only safeguards Josh's current financial status but also his future retirement plans. Unexpected medical expenses or business interruptions without adequate savings or insurance could significantly derail both his business and retirement plans.

Summary

This chapter provides a basic pathway to merging personal and business retirement planning. By following this structured approach, small business owners can navigate the difficulties of retirement planning, ensuring a seamless transition from business ownership to retirement while securing their financial future.

The principles laid out here will be exemplified in case studies about small business owners in the forest products world. The following chapters demonstrate the application across various retirements scenarios for different types of forestry businesses owner across a range of ages. As you move forward, remember that flexibility and regular updates are key to adapting these strategies to your unique circumstances.

CHAPTER 8

Josh's Routes to Retirement

Josh, at the age of 25, has already carved a place for himself in the forest products industry as a logger. He has an entrepreneurial drive that sets him apart from others his age. Josh always knew he wanted to be a logger and made a calculated decision to learn his craft with six years of rigorous training, working for an experienced logger. This foundational period was just what he needed, equipping him with the skills to fell trees using both chainsaws and feller bunchers, expertly navigate grapple skidders, and proficiently operate a log loader.

Beyond learning how to do the work, Josh's foray into business ownership was the culmination of years of disciplined saving and sound financial planning. With a mix of personal savings and a $30,000 loan, he bought an older forwarder. This purchase laid the cornerstone of his independent operation, JT Logging. Complemented by a pickup truck, two chainsaws and a selection of hand tools, this modest equipment lineup marked his entry into self-employment.

Starting with a lean operation, Josh has managed to keep his business solvent, maintaining $5,000 in working capital. His business acumen shines

through his dual-strategy approach to revenue: subcontracting for established loggers and directly securing stumpage rights for small-scale logging projects. He believes this is the right path to building his reputation and is quick to recognize and seize opportunities. His reputation for quality workmanship is slowly but surely gaining traction, promising larger and more lucrative contracts on the horizon.

Beyond his professional endeavors, Josh is careful with his personal finances. Sharing a modest rental house with his brother for $700 a month and servicing a $700 monthly payment for his five-year-old pickup truck, he lives a disciplined financial life. With $2,000 in savings and no burdensome personal debt to his name, Josh believes in keeping things simple and choosing to do whatever is hardest first.

Josh has ambitious dreams of scaling his operations, acquiring a harvester and broadening his team to include his brother. His forward-looking mindset is also evident in his approach to retirement planning. Acutely aware of the retirement challenges faced by his parents and relatives, Josh is determined not to end up like them. He understands the limitations of his business's valuation—tied to the worth of his equipment upon retirement—but sees this not as a deterrent but as a challenge to build a sustainable

business model that earns enough money to secure his future.

Josh Applies the Rule of 25

Josh is proactive for his age and has begun to think seriously about his retirement plans. Keen on retiring by the age of 65 and living debt-free, he decides to use the Rule of 25 to estimate the total savings needed to fund his retirement independently of the uncertain Social Security benefits.

Determining Retirement Needs

Josh calculates that he would need $75,000 annually to comfortably cover all his expenses during retirement, which includes leisure activities, healthcare, and everyday costs. He doesn't know much about taxes or inflation, yet, but knows he will have to revisit this goal from time to time in the future, but it is a good starting point. By applying the Rule of 25, he can determine how much he needs to save to fund his retirement fully.

Calculating the Retirement Fund Requirement

According to the Rule of 25, Josh should aim for a retirement portfolio that can sustain annual withdrawals equal to his yearly expenses without depleting the principal too quickly. The calculation is straightforward:

Required Retirement Fund =$75,000 x 25
=$1,875,000

This total — $1.875 million — is what Josh targets to accumulate by age 65, ensuring he can withdraw $75,000 annually for at least 30 years.

The young have the most routes to retirement available to them, even as they have less money to pursue these routes. But it's little solace that the benefits of compounding make retirement goals less expensive at this age if Josh is not making enough money to start investing. Let's explore some ways to work through this.

One Route to Josh's Retirement

Josh's retirement plan must be crafted with a strategic balance between immediate business growth opportunities and long-term financial security. Starting at age 25, Josh is in a good place for setting the foundation of a practical retirement plan. The essence of his plan should combine savings, wise investments, and a thorough understanding of available retirement benefits. A straightforward route for Josh, considering his entrepreneurial interests in growing his logging business and his current financial standing is presented below.

Early Investments and Compound Interest

Compounding is Josh's best ally. Investing early in diversified portfolios, including stocks, bonds, and retirement accounts, can significantly impact his retirement savings, thanks to the power of compound interest. He can accomplish this efficiently with a targeted fund at a financial institution, selected for the decade when he plans to retire. For example, if Josh invests $5,000 annually in an IRA with an average annual return of 7%, by age 65, he would have accumulated over $1,150,000 million. Theoretically, at least, he could invest $7,000 per year (the maximum IRA contribution allowed at his age), but he can't afford the additional $2,000 per year at this time.

This illustration emphasizes the exponential growth potential of early, consistent investments, underscoring the trade-off between using surplus funds to grow JT Logging versus investing for future compounding benefits. Josh is not maximizing his annual IRA contribution - he's not even coming close - because he believes he needs to keep some funds available for the growth of his business.

Social Security Benefits

Understanding Social Security benefits is vital. Josh should aim to work and contribute for at least 35 years to maximize his benefits, as Social Security

calculates benefits based on the 35 highest-earning years (SSA, 2024). In fact, Josh has no option but to contribute, though it is difficult to predict what the landscape of Social Security benefits will be forty-two years in the future. With this in mind, Josh should proceed with his planning without the expectation that Social Security benefits will make a significant contribution to his retirement. Anything he collects could be considered a bonus – at least from a planning standpoint.

Reaching the Financial Goal

This route for Josh is a synthesis of best practices and strategies tailored to Josh's profile, leveraging insights from the U.S. Department of Labor (DOL, 2021), the Social Security Administration (SSA, 2024), and the Consumer Financial Protection Bureau (CFPB, 2021).

Based on the savings plan suggested for Josh here, he will need another $725,000 to reach his financial goal of $1,8750,000. Josh is counting on the sale of his business, which is really just the sale of his logging equipment, to make up this shortfall. Will it be enough? It is difficult to say what the equity in his equipment will bring 42 years in the future – especially because his equipment mix is bound to look much different then.

What if Josh is somehow able to maximize his annual IRA contributions, even if this means a slower rate of expansion for his business? Under current rules, this would mean $7,000 per year for the next twenty-five years, and then rise to $8,000 per year when he turns 50.

By maximizing his IRA contributions under current rules until he retires at age 67, Josh would accumulate $1,768,434. This is just a stone’s throw short of his goal of $1,875,000 and could almost certainly be covered by the sale of his logging equipment. If only contributions were as easy as calculations

Business Growth vs. Retirement Savings

Josh should balance reinvesting in JT Logging with saving for retirement. While expanding his business is foremost in his mind, he should not overlook retirement contributions. Options like a Simplified Employee Pension (SEP) IRA or a Solo 401(k) are particularly suitable for small business owners like him, offering high contribution limits and tax advantages (DOL, 2021). Allocating profits into such plans not only secures his future but also provides tax benefits that can improve his business's financial health in the short term. Let’s examine some alternative routes to retirement that change the

timing and methods of reaching his retirement goals.

Alternative Routes for Josh

Suppose that Josh is faced with the real prospect of deciding whether to fully fund his IRA or reinvest money to grow his business. At age 25 and in the early stages of his business, this seems to be a likely challenge. Does he have to give up on this idea of investing in retirement? Hardly. Instead, he might choose from different routes.

Josh might instead choose to contribute $2,000 each year to his IRA while he grows his business, with the thought that a successful business will allow him to contribute more money in the future. If Josh's vision, effort and work pay off, by age thirty-five he might be ready to up his contributions.

Suppose Josh works hard for another ten years and at the age of 35 consults with a financial planner. He learns that if he maximizes annual IRA contributions for the rest of his work life, he should be able to accumulate $1,629,977 by age 67. This seems close enough to his goal that, coupled with the sale of his logging equipment, he feels reassured he will get there, but he also feels uneasy.

Ten years has taught him a lot about inflation and how much certainty there is in anything in the

financial and business worlds. He is making a good living at this point and ask his financial planner about options for increasing his retirement savings.

Josh decides to open a Solo401(k). He plans to continue contributing $2,000 each year to his IRA because It has become a comfortable and satisfying habit. Based on the success of his business he also decides to contribute $10,000 each year to the new Solo 401(k), with the intention of increasing this to $20,000 per year from age 50 until he retires. Assuming the same average annual rate of return of 7% used early, this would allow Josh to accumulate $2,385,952. This total far exceeds his goal, even without factoring in the sale of his logging equipment.

Small businesses seldom provide neat, consistent and predictable annual cash flows. Despite this, if Josh can approximate these annual retirement contribution levels, on average, his goals are clearly within reach.

At 25, Josh has many options but fewer life certainties. Challenges and opportunities outside these simple calculations will certainly present themselves. Following any of the retirement routes (his route at 25, his revised route at 35 and any new routes that arise from future successes and setbacks) and adhering to disciplined investing will move

Josh toward his financial goals. His route is bound to change over time, but his general direction should remain the same no matter what methods he chooses.

CHAPTER 9

Gert’s Routes to Retirement

At thirty-five, Gert has achieved her dream of working for herself as a consulting forester. She spent several years learning a lot but earning just a little, working for a larger land management firm. Her decision to launch Solstice Forestry, LLC, sprang from a realization that her substantial contributions to a larger land company were enriching the company far more than her own financial or professional growth. She wanted something of her own. Much of this motivation came from dedication to serving forest landowners committed to stewarding their lands for future generations of their families.

Gert’s business, specializing in drafting management plans, facilitating timber sales, and providing a range of consulting forestry services, caters to the specific needs of her clients. Many of her clients are family landowners, with holdings ranging from as few as ten to as many at 1,500 acres of timberland. She loves work. She loves people too, most of the time.

The financial landscape of Gert's early work was marked by uncertainty, a common challenge for new businesses. Despite the initial struggles and long gaps between paydays, her resilience and belief

in the significance of her mission propelled her business forward. Work came to her in a trickle at first, then suddenly in a torrent. Trial and error taught her which assignments to accept and decline, though there were a lot of growing pains in this process.

As a forester, Gert is a natural planner, so it's no surprise that she wants to plan her financial future carefully. She is a homeowner with a 30-year fixed rate mortgage, paying $1,200 monthly, and entered the world of self-employment with $15,000 saved for retirement. For the first two years of Solstice Forestry hovered around the break-even point, but later Gert managed to add an additional $13,000 to her retirement savings. Additionally, she has amassed an emergency fund capable of covering three months of living expenses. Gert still faces a $10,000 student loan debt and a truck payment of $600 per month – a payment she more or less expects to be making forever, replacing the truck every five years or so.

These truck and student loan payments illustrate the gray area between personal and business expenses among sole proprietors. Both are personal loans and yet she considers her education as her part of her investment toward being in business and the truck as a necessary expense.

Solstice Forestry's revenue is split between long-term engagements with landowners enrolled in the state’s current use program and a mix of one-off timber sales, boundary line work, and occasional subcontract timber cruising for other forestry firms. Gert's industrious nature means she often works six days a week, though she takes time off during the slower seasons.

Looking forward, Gert envisions her business providing enough not only a comfortable living but also for supporting a family and a secure retirement at age 67. Despite the unpredictability of profits, her lifestyle is defined by living within her means and a strategic approach to savings and investments, aimed at ensuring a comfortable and fulfilling retirement.

Gert was working on a long-term forest management plan one day, listing the intended timber harvesting plan for a twenty-year period. This got her thinking about how old she would be in twenty years and then her thoughts turned to where she wanted to be in life at that point and beyond. She resolved to take a closer look at her plans for retirement.

Gert Applies the Rule of 25

A few days after her “aha” moment in writing the management plan, Gert starts to give serious

thought to retirement planning and comes across the Rule of 25 in her research. Her vision for retirement includes a comfortable lifestyle enriched with travel and continuous learning. To have this life she estimates she will need an annual income of $100,000, though she expects to revisit this in the future to determine if it will be enough.

This amount of $100,000 is intended to cover all her living costs including housing, healthcare, daily expenses, and the travel and leisure activities she values highly. Given her modest current lifestyle and strategic financial planning, this figure is both ambitious and reflective of her desire to enjoy her post-working years to the fullest. She expects that inflation and future changes in taxes will prompt her to revisit this figure in the future.

To ensure a comfortable retirement, Gert applies the Rule of 25, which suggests she should have an investment portfolio that is 25 times her estimated annual expenses. This calculation will determine the total amount she needs to have in place by the time she retires.

Required Retirement Savings =$100,000 x 25
=$2,500,000

Gert thus needs to amass $2.5 million in her retirement portfolio by age 67 to fund her desired lifestyle sustainably, based on the assumption that

she will withdraw 4% of her portfolio annually to cover her expenses. She is skeptical that whatever Social Security benefits she collects will make a significant contribution to her needs.

Gert has already started on her retirement savings investments with an initial amount of $28,000 saved in an IRA, comprising $15,000 she had upon becoming self-employed and an additional $13,000 she managed to save thereafter. Her business, Solstice Forestry, is beginning to thrive after initial growing pains, allowing her more financial flexibility. There is enough left over each year to make real contributions to her retirement. Given her current savings and assuming she has 32 years until retirement, Gert sets out to plan her financial future:

One Route to Gert's Retirement

Given Gert's position as a budding entrepreneur in the consulting forestry sector, her retirement planning needs to consider her business's growth trajectory, personal goals, financial target and her commitment to her work. Gert's plan will weave together savings, investments, and strategic decisions regarding debt and home ownership, balanced carefully against her business needs and retirement aspirations.

Starting Point

Gert, at 35, with existing retirement savings of $28,000 and an emergency fund, is well-positioned to plan for a secure future. However, the presence of a student loan and truck payment, coupled with the responsibilities of homeownership, and plans to start a family requires a balanced approach to financial planning.

Debt Management vs. Investment

Gert's student loan and truck payment, especially if they carry high interest, should be prioritized. Paying off high-interest debts can be considered a form of investment, as it guarantees a return equal to the interest rate, which is often higher than the average market return after taxes.

While paying off her home could provide peace of mind, her mortgage interest payments may be low and could be tax-deductible (this is only a reality if they exceed her standard deduction). Therefore, Gert might find a better long-term return by allocating surplus funds towards her retirement accounts rather than accelerating her mortgage payments. Careful calculations and comparisons can answer this question.

Retirement Savings and Investment Strategy

Gert decides to prioritize paying off her high interest debt over the next 3 years and then maximizes her IRA contributions after that. Assuming her business and personal spending allow it, she will contribute $7,000 per year until age 50 to her IRA, and then $8,000 per year until she retires at age 67. Based on what she has already saved and her hope she can realize an 8% annual rate of return, she can accumulate about $1,670,000 in this way.

Business Investments and Retirement

Gert's business is both her passion and her primary income source. She has a couple of choices here. Remaining a sole proprietor will not incur significant investments beyond staying up to date in her field, purchasing minor work supplies and owning a pick-up truck for her work. She maintains a home office and usually meets with clients in their homes or in the field. Working alone limits her income potential somewhat but she prefer not to have employees. Instead, she can work towards being one of the top people in her field. The more work that comes to her, the better position she is in to raise her prices. Whenever possible, she charges a flat rate for projects she understands well, rather than an hourly rate. Since this business is Gert and her efforts, she does not believe Solstice Forestry, as

a sole proprietorship is something she can sell when she retires. Any retirement it affords will have to come from the annual profits the business produces.

Gert has considered the option of growing her business and hiring one or more additional foresters to work for her. This would be possible if she could secure a forest management contract on the larger tracts of timberland in her region that are owned by institutional investors. This would also grow into a business that she might be able to sell when she retires. Gert is confident she can do this and has fielded a couple of inquiries about it already. In the end, she decided this would turn her into more of a manager and less of a field forester. Her desire to practices actual forestry on daily basis, along with the goals for her personal life have prompted her to decide against this sort of business growth.

Social Security and Medicare

As a self-employed individual, Gert contributes to Social Security and Medicare through self-employment taxes. She periodically checks her Social Security statements to ensure her contributions are accurately recorded, as these will influence her future benefits (SSA, 2024). One rainy day after checking her annual Social Security statements, she did a deep dive internet search, trying to make sense of the program's solvency. She

came away from this skeptical that she would every collect any benefits when she retires.

Health Savings Account (HSA)

Gert is eligible to open an HSA, based on her enrollment in a high deductible health insurance plan. She has looked into opening one and has this in mind, but she wants to prioritize fully funding her IRA or other vehicles that will reach her financial retirement goal. Contributions to an HAS are tax-deductible, grow tax-free, and can be withdrawn tax-free for qualified medical expenses. In retirement, funds could be used for non-medical expenses without penalty, although they become subject to income tax, similar to a traditional IRA.

Lifestyle and Spending

Living within her means and planning for future expenses, such as supporting a family, will be crucial. If Gert continues her pragmatic spending, investing in her quality of life and her business's sustainability she won’t be compromising her retirement savings. She also realizes that once she has a family, life will be more expensive. All the more reason to start planning, saving and investing now.

Continuous Learning and Adjustment

Gert should stay informed about changes in tax laws, retirement savings options, and investment strategies. Regular reviews of her financial plan will allow adjustments based on business performance, market conditions, and personal circumstances. With many years to go until her retirement, she should re-assess her situation periodically and make any adjustments necessary to stay on track. She still has plenty of time to take corrective action if this route moves her toward an outcome that falls short of her financial goals.

Falling Short

If Gert follows this route she will move toward a satisfying retirement, but one that falls short of her goals. Recall that she calculated a need to accumulate $2,500,000 to meet her intended annual retirement needs. She is on track to accumulate $1,670,000 in her IRA, but this still leaves her $830,000 short of her goal.

Some people are positioned to sell their home in retirement and move to a less expensive area. That doesn't appeal to Gert and the differential in home prices wouldn't cover the shortfall in this case. Her business has no sale value. Unless she has other financial assets in addition to her IRA to make up

this shortfall, she will not have enough to fund the retirement lifestyle she has planned.

Alternative Routes for Gert

Given the difficulties of self-employment and retirement planning, Gert would benefit from consulting with a financial advisor who can provide personalized advice, ensuring her strategy aligns with her financial goals and retirement aspirations. The financial advisor encourages her to open a Solo 401(k) and once she has paid her high interest loans off, start funding it at a level sufficient to meet her retirement goals.

How much more in annual contribution to the Solo 401(k) will make up the projected shortfall? The Solo 401(k) is well suited to self-employed individuals. The owner is both the employer and employee, with a lesser limit placed on the employee contribution. The combined limit of both is $58,000 annually ($64,500, if over age 50). This limit is far above what she would need to contribute to meet her goal. It turns out, if she can realize an annual return of 8%, contributing $7,693 per year to the Solo 401(k) will make up the shortfall. The combination of the IRA contribution mentioned earlier and this Solo 401(k) will meet her financial goal of accumulating $2,500,000.

As is always the case, making the calculations is easier than making the contributions. What if Gert's life goes more or less as she has planned and, by the time she has paid off her high interest debt, she has married and started a family? Excellent news to be sure, but also something that might change her financial trajectory. Family obligations, both with children and aging parents, could lead to less time devoted to work if Gert accepts fewer projects. It might also shift her focus from saving for retirement to saving to send her children to college.

From a financial standpoint, suppose this means that Gert won't be able to start contributing to a Solo 401(k) until age 45. What dollar amount of annual contributions would be necessary then? At this point, annual contributions of just over $16,000 would be required (in addition to continued maximum contributions to her IRA). This Is more than twice as much as it would have been if she started earlier. It does little good to point this out if there was no money available to contribute at the earlier date. The truth is that people often have higher earnings as they get old and are in a better position to contribute than when they were younger.

Suppose Gert gets further off track than she intended. What if the demands of family life mean she is only working half-time or so until she reaches age 55? If she has been unable to contribute to a

401(k) until she ramps her business back up at 55, how much would she need to put away each year to reach her goal? Unsurprisingly, it's quite a bit more expense, requiring an annual contribution of $38,619. While this is a lot of money, it is possible that her income and other circumstances at this stage would be high enough to allow for this level of savings.

Gert has other routes of reaching her retirement goal at her disposal, though they all require that she has cash available at the right time. Her work may provide her with the insights to recognize good opportunities to purchase timberland and other real estate. Her expertise in this area should ensure good returns from the erratic cash flows that might come with such acquisitions. Gert might also employ any of the other legal means and vehicles discussed in earlier chapters.

Gert's route from an employee to an entrepreneur already demonstrates her foresight and commitment to her values and financial independence. Her comprehensive retirement plan will build on this foundation, balancing the growth of Solstice Forestry with retirement savings, prudent debt management, and strategic investments. By focusing on her business's sustainability and her personal financial goals, Gert can ensure a legacy

that supports both her values and her aspirations for a comfortable retirement.

Chapter 10

Ryan's Routes to Retirement

Ryan, at the age of 45, owns Touchwood Millworks, a custom sawmill built with 15 years of dedicated effort and an eye toward the future. With a BA in Business and a diverse early work history, including customer service and farming, Ryan has bootstrapped the foundation for his success. His venture started modestly with a portable LT 40 Woodmizer sawmill operated next to his garage, eventually evolving into a significant operation stationed on a 5-acre site close to his home. This expansion included the acquisition of a larger bandmill and the construction of a pole barn on a concrete slab, marking the start of a period of growth that saw the addition of a kiln, a large planer, shaping machines and covered storage. This enabled Ryan to diversify his product offerings from basic softwood lumber to a variety of more lucrative custom orders, including posts, beams, panels and flooring.

The business structure Ryan chose for Touchwood Millworks, an LLC taxed as an S Corp — demonstrates his savvy in financial and operational management. In this way he is able to realize significant taxes savings by eliminating some of the

self-employment tax that would be incurred if he was a pass-through LLC for tax purposes.

He maintains equity in compensation within his team by drawing a salary equal to that of his two employees, supplementing his earnings with profit distributions.

Ryan's financially responsible approach extends to his management of a $50,000 line of credit, which he diligently clears annually. He prides himself on being financially disciplined and paying off his line of credit at least once each cycle reassures him that he is on track.

Ryan's personal financial management mirrors his business acumen. With a $300,000 mortgage on his home and an annual income of $100,000 after expenses, he personifies financial discipline. He reinvests any surplus beyond the $90,000 needed for family expenses back into Touchwood Millworks, fostering growth while planning for the future.

Looking ahead to retirement at 67, Ryan envisions selling his sawmill business for around $500,000. The mill might not be worth that much today, but Ryan expects it will be in ten years or so. He would like to sell the business intact, but it might make sense to sell the sawmill equipment and the improved real estate separately. He's open to financing the sale to ensure a smooth transition,

potentially to a former employee. He would like to see the business continue to operate after his time is over but will not pressure any of his children to take it over. In the end, he is counting on whatever he can get for his business assets to make a large contribution to financing his retirement.

Ryan's retirement planning up to now includes $60,000 saved in a Roth IRA and his wife's contributions to a state-sponsored 401k plan, preparing them for a secure future. This balanced approach to personal and business finance positions Ryan not just for a successful retirement but as a model of entrepreneurial growth and financial responsibility.

Ryan Applies the Rule of 25

As Ryan considers his retirement at age 67 more closely, he wants greater certainty in his calculations. He is anticipating that his total annual living expenses in retirement will be about $90,000. At least, that's what he figures his contribution toward retirement should be for both he and his wife. In his mind, anything his wife's 401(k) brings in will be a bonus. He feels strongly that his work and the value of the business he has built should be enough to support them.

This $90,000 annual estimate includes all necessary living costs such as housing (assuming his mortgage

is paid off by then), utilities, healthcare, food, and discretionary expenses like travel and hobbies that he and his wife wish to enjoy. Ryan can't get past a nagging feeling that he will have to recalculate this in the future and adjust for inflation, but for now the $90,000 gives him a figure he can work with.

Ryan expects that he and his wife will collect approximately $3,000 per month in Social Security benefits, which totals $36,000 annually. He got this figure after creating a login account with the Social Security Administration and reviewing his earning history. He is skeptical he will be able to ever collect the full amount in the report shown on the website and decides he can probably count on about 75% of the monthly $4,000 he and his wife should be collecting ($4,000 x 75% = $3,000). This social benefit will offset a portion of their annual expenses.

Annual Net Retirement Expenses = $90,000 - $36,000 = $54,000

To find out how much they need in their retirement portfolio to comfortably cover their annual expenses using the Rule of 25, Ryan calculates:

Required Retirement Portfolio =$54,000 x 25 = $1,350,000

Therefore, Ryan needs to aim for a retirement portfolio of at least $1.35 million by the time he

retires, to ensure they can withdraw 4% annually to sustain their lifestyle without depleting the principal excessively.

Currently, Ryan has a total of $60,000 saved towards retirement—$60,000, all in his in a Roth IRA.

Assuming Ryan has 22 years until retirement, and his savings need to reach $1.35 million, he is on a route to retirement that may not reach his goals.

One Route to Ryan's Retirement

Ryan's route from starting Touchwood Millworks beside his garage to owning a full-fledged custom sawmill operation is not just a business success story but also one of prudent financial and operational management. As he contemplates retirement at 67, his approach to financial planning requires a blend of continuing business growth, personal financial management, and retirement savings.

<u>Business Growth vs. Personal Finance</u>

Ryan's strategy of reinvesting surplus earnings back into Touchwood Millworks has proven beneficial for business expansion. This reinvestment should continue but with a strategic focus. Investments that improve efficiency, reduce costs, or tap into new markets can provide significant returns, potentially increasing the business's sale price upon retirement.

Personal Savings and Investments

With $60,000 in a Roth IRA Ryan has laid a foundation for retirement savings. However, to ensure a comfortable retirement, maximizing contributions to these accounts should become a priority. Given his age, the benefit of compounding interest is less pronounced than it would be for a younger individual, but it remains a powerful tool. For example, if Ryan can maximize his Roth IRA contributions to $7,000 annually, increase them to $8,000 per annually at age 50 and realize an average annual return of 7%, he could add over $330,000 to his retirement savings by age 67.

Debt Management

The disciplined approach to managing a $50,000 line of credit and his good fortune of obtaining $300,000 mortgage back when rates were under 4% are part of Ryan's financial prudence. While maintaining this strategy, Ryan should also evaluate the possibility of increasing mortgage payments or paying down the principal faster if his business's cash flow allows. This would reduce interest payments over time and contribute to his net worth. This is a good approach unless he finds himself simultaneously borrowing money for other purposes at a higher interest rate.

Sale of Sawmill

Ryan's plan to sell Touchstone Millworks (in whole or in parts) for $500,000 is a substantial part of his retirement strategy. He should begin preparing the business for sale well in advance, ensuring financial records are impeccable and the operation is as profitable as possible. Offering seller financing could expand the pool of potential buyers but also requires Ryan to manage the risk appropriately. Alternatively, he can sell the sawmill equipment and real estate separately.

Diversification of Investments

Beyond maximizing his Roth IRA contributions, Ryan should consider diversifying his investments to include index funds, bonds, and even real estate. Diversification can reduce risk and provide different streams of income in retirement.

Lifestyle Considerations

Ryan and his family currently live on $90,000 a year. Avoiding lifestyle creep is one way of continuing at this level. Keeping lifestyle inflation in check will allow Ryan to allocate more funds toward his retirement savings and investment accounts, especially if his income increases.

Continuous Evaluation

Ryan is now 22 years from his intended retirement date and should conduct annual reviews of his financial plan to adjust for changes in the business, investment returns, and personal life. This will help him stay on track or pivot as necessary to meet his retirement goals.

Where does this Route Lead?

Ryan's comprehensive retirement plan hinges on a balanced approach to business growth, personal finance management, and strategic retirement savings. By continuing to reinvest in Touchstone Millworks wisely, maximizing retirement contributions, managing debt effectively, and planning for the sale of his business, Ryan sets the stage for a financially secure and fulfilling retirement. His route is correct in this sense, but the pace might be off a bit.

Assuming that Ryan continues to fully fund his IRA ($7,000 per year until age 50, $8,000 per year from then until retirement) he will accumulate about $658,000 in this account. Combining this IRA total with a $500,000 sale of his business when he retires results in $1,158,000 ($658,000 + $500,000). This leaves Ryan about $191,000 short of his goal and this projection makes him uneasy.

Alternative Routes for Ryan

There are multiple routes to making up the projected $191,000 shortfall. Ryan consulted with his financial planner and considered his alternatives. As a mid-career person, he still has several ways of achieving his retirement goals.

One route to making up this difference is to open a Simplified Employee Pension Plan (SEP IRA) through his business and make sufficient contributions to it over the next 22 years to accumulate the necessary $191,000. The SEP IRA is Ryan's best option because he has employees. If he opened a 401(k) through his business, he would also have to make contributions for eligible employees and that is not an option at this time.

Ryan would need to contribute about $4,000 annually to the SEP IRA to make up the projected $191,000 shortfall. This assumes a 7% annual rate of return and following all of the SEP IRA rules (Ryan's contribution is not more than 25% of his compensation and the combined contribution is within the maximum contribution limit).

An increase of $4,000 in Ryan's annual retirement savings might not seem like much – unless he doesn't have it to save. Chances are there are competing purposes for these funds, including the needs of his family and required re-investments in

the sawmill business. If the timing is not right for Ryan to increase annual contributions, what can he do?

People find they have different sets of financial demands at different stages of life. Ryan could forego making additional annual contributions until a later date. Suppose that, in ten years, at age 55, his children will be on their own and his home mortgage paid off. Perhaps his business will become more profitable over time. That might leave him with more funds to put toward retirement.

If Ryan waits until age 55 to start contributing to a SEP IRA, he will need to set aside $10,681 each year. This will ensure he makes up the $191,000 shortfall calculated earlier by age 67.

Any combination of timing of contributions to a SEP IRA over the next 22 years that is within the legal limits could be used to make up the shortfall. It may simply be a matter of contributing as much as he can (within the legal limits) in any given year.

There are alternative routes to realizing Ryan's retirement goals that can happen outside of traditional retirement vehicles such as IRA accounts. If the ultimate goal is to reach $1,350,000 in assets by age 67, any legal appreciation of his assets that gets him there are worth considering.

What if there was a way that Ryan could realize some of the value of his business prior to his retirement and then invest these proceeds for future growth? One alternative is for Ryan to find a partner he can work with and sell this person half the business. The calculations for doing this are straightforward, even if the process is more complicated.

Chances are that a partner won't appear suddenly one day, offering to buy a share of the business. Remember that a partnership means splitting the profits going forward as well, and the business would have to be profitable enough to both satisfy the new partner and keep up Ryan's current standard of living.

Any partnership arrangement Ryan is comfortable with might work, but we seldom see a silent, non-working partner in a small sawmill. Let's say that about the time Ryan turns 55, one of his employees – a thirty-something guy named Chip has expressed an interest in buying in. How could this be accomplished?

Let's say that both parties agree the sawmill is worth $500,000 and it is debt free. Chip has enough cash on hand to be taken seriously – $25,000 – and the business is capable of taking out a loan for the rest. A partnership agreement is reached (exploring the

specific details is a significant undertaking beyond the scope of our example). Chip's $25,000 down payment and the loan amount of $225,000 go to Ryan. Ryan retained 51% of the equity in sawmill, by common consent (Chip recognizes that Ryan is still in charge of day-to-day operations, with Chip gradually taking on more responsibilities).

Now Ryan owns half a sawmill with a ten-year loan to pay off. He would only undertake this if he were certain the business had good prospects of servicing the debt without changing his compensation much over the next ten years. He also expects that a adding a true working partner will increase the mills production, revenue and profits.

The working plan is that the loan will be paid off by the time Ryan retires and that Chip will purchase the remainder of Ryan's interest at that time.

So how is this different than Ryan selling 100% of the business when he retires? Ryan now has a large lump sum to invest and realize a return on over the next 12 years.

Let's say that Ryan nets $225,000 after taxes on the sale of half his business to Chip. If he invests this at 7% for the next twelve years, it will grow to $506,700.

If we combine this accumulated $506,700 with another $250,000 when the other half of this business

is sold, it comes to $756,700. Recall that Ryan has been dutifully contributing to his ROTH IRA each year and at age 67 he has accumulated $658,000. The combined total of all of this is $1,414,700 – eclipsing Ryan's retirement goal of $1,350,000 by a handsome $64,700!

Example calculations will always yield precise dollar figures – while reality often leads to numbers we didn't predict or expect. In Ryan's case, as long as he is diligent about finding the best route, keeping his business profitable and making periodic adjustments, a comfortable retirement is within his reach.

CHAPTER 11

Todd's Routes to Retirement

Todd has been running his own logging business, Logger Todd, LLC, for 25 years. After high school he got an associate degree in forestry at the state college and then worked for several logging companies until he could afford to buy his first skidder and start his own operation. Over the years, Todd expanded his business from doing all his felling by hand with a chainsaw to using more advanced machinery like a feller buncher, grapple skidder, loader, and a slasher. His business grew to the point where he even hired two employees, including his son who later left to become a lineman.

After his son left, Todd switched to cut-to-length logging, a decision that required him to find a balance between what he could afford and keeping his business competitive. He bought used but reliable machines from other regions to stay within his budget. This approach has served him well, and he is now on his third harvester and second forwarder, planning to replace them both one more time before he retires at 67.

Looking ahead, Todd wants to sell his business when he retires. However, he knows that without him, the business's worth is in the equipment. He expects to sell everything for about $275,000, which

is the equity he thinks he'll have left in his logging equipment by then, with all loans paid off. Todd owns his home and the adjacent shop for equipment repairs, outright, having retired the mortgage a few years earlier. His wife has been working with him in the business handling the books and other support tasks. Now that their children are grown and out of the house, they enjoy taking vacations together every year.

Financially, Todd is in a good place with $150,000 in savings, plus another $9,000 in an IRA that he started years ago but hasn't added to since. He also invested in a 160-acre woodlot about an hour from his home, which has provided family recreation and some timber revenue. He plans to harvest most of the timber there with a chainsaw and a cable skidder when he retires, expecting to make close to $200,000 from it over a few years. He's open to better financial ideas for getting the most out of his timber and putting the funds to work.

Todd is hopeful that he'll get something back from Social Security when he retires, considering the amount he's paid in self-employment taxes over the years. His life's work has been about adapting to changes in the logging industry and finding ways to keep his business going strong, while also building a stable and supportive home life with his wife. As he approaches retirement, Todd is thinking about

how to make the most of his assets and is open to new ideas for his future.

Todd Applies the Rule of 25

At 55, Todd is carefully considering the financial aspects of his impending retirement, which he plans to begin at 67. Having built a successful logging business from the ground up, Todd's retirement strategy involves liquidating his business assets, capitalizing on his investments, and receiving Social Security benefits.

Todd estimates that the combination of his Social Security, which will provide $2,800 per month ($33,600 annually), along with additional income streams from selling his business and timber, will support his retirement lifestyle. However, to understand how much he needs to save independently, Todd decides to apply the Rule of 25 to his anticipated expenses excluding Social Security income.

Assuming Todd wants to maintain an annual income that comfortably exceeds his Social Security benefits, he might aim for an additional $40,000 per year. This amount would cover additional luxuries, travel, and unforeseen costs:

Required Retirement Fund = $40,000 x25 = $1,000,000

This calculation suggests Todd needs to amass $1,000,000 by age 67 to supplement his Social Security, ensuring a total annual income of approximately $73,600.

One Route to Todd's Retirement

Developing a comprehensive retirement plan for Todd requires understanding his current assets, anticipated retirement income sources, and goals for his post-retirement life. Given Todd's unique situation—owning a logging business, planning to sell business equipment at retirement, owning real estate, and having some savings and investments—his retirement plan should be multifaceted and adaptive to ensure financial security and fulfill his post-retirement aspirations.

Retirement Timeline and Social Security Benefits

Todd plans to retire at 67, aligning with the full retirement age for Social Security benefits, which ensures he will receive 100% of his benefit entitlement. Given his years of self-employment, Todd has contributed to Social Security and can anticipate these benefits as a steady income stream in retirement. To get a precise estimate of his Social Security benefits, creates a "my Social Security" account online and this is where he learned he should be getting $33,600 annually in Social Security benefits.

Selling the Business and Equipment

Todd's logging business, primarily valuable for its equipment, is expected to sell for around $275,000. This sale represents a significant part of Todd's retirement funding. Before selling, Todd should consider consulting a business appraiser to ensure the equipment is sold at its maximum value and explore tax implications with a certified accountant to optimize the financial outcome of the sale.

Timber Revenue

Todd's 160-acre woodlot is not only a recreational asset but also a source of timber revenue upon retirement estimated at $200,000. This dual-purpose asset could serve as a significant supplementary income in early retirement or be managed as a longer-term investment. Exploring a sound and sustainable timber harvesting plan could maximize its value and revenue potential over time.

Savings and Investments

Todd has $150,000 in savings and $9,000 in an IRA. Given the modest size of his IRA, Todd should consider maximizing his IRA contributions going forward to take advantage of tax-deferred growth. Additionally, diversifying his investment portfolio beyond the IRA and timber revenue could provide a more stable and higher return on investment.

Investing in a mix of stocks, bonds, and mutual funds, with a focus on generating retirement income, could be beneficial.

<u>Where does this Route take Todd?</u>

Todd's life of diligent work is leading him toward retirement, but will he have enough money to retire? Let's add up everything he has in motion to see how far it takes him toward his goal.

If he starts adding to the $9,000 in his IRA by making the maximum contribution of $8,000, this will grow to almost $148,000 when he retires.

Todd and his wife accumulated savings of $150,000 by age 55. Assuming he has these funds in a high-interest savings account (paying 4.7% annually) these funds will grow to $262,000 by the time he retires. High interest savings accounts aren't much different than traditional savings accounts, though they often have higher minimum balances. These accounts are insured by the Federal Deposit Insurance Corporation (FDIC) and so have little risk.

If Todd is able to sell his equipment when he retires for $275,000 like he planned and his timber for $200,000, these two assets will amount to $475,000.

Combining Todd's $148,000 from the IRA, $262,000 in anticipated savings, $275,000 from equipment and $200,000 from the sale of the timber results in

assets totaling $885,000. While this is substantial, it falls $115,000 short of the goal set by Todd and his wife.

After a rainy spring weekend making these calculations, Todd decides that while he is headed in the right direction, he is not on the right route to get him where he wants to be. He sets up a meeting with a certified financial planner that was recommended to him by one of the loggers he worked for when he was younger. This guy is now retired and seems to be much happier than Todd remembered from working with him.

Additional Routes to Todd's Retirement

After a couple of sessions with the financial planner, Todd realizes he has a wider range of managing of possibilities for managing his assets than he realized. The easy answer to his projected shortfall is something he knew already: save more. It's easier to know this than it is to do it. He was also encouraged to shift some of his savings into a SEP IRA to get a greater return, but he is reluctant to do it. There is enough risk for his liking in logging and he prefers the FDIC-insured savings account for these funds.

One of the options the financial planner told him about was to put additional funds in a SEP IRA each year to make up the shortfall. Assuming a 6%

annual rate of return from the conservative targeted fund Todd is most comfortable with, this would mean saving another $7,680 annually, on top of the maximum traditional IRA contributions Todd is now making. This would bite into his current lifestyle quite a bit and Todd decides to look further at other alternatives.

In the back of his mind, Todd had always planned to cut the good timber on his woodlot when he retired. He had cut there several times in the past – once to fill when work was slow and on two other occasions to make improvements. He only cut out poor quality trees for pulpwood on those two entries and this had paid off in higher growth rates among his crop trees.

On top of the need to re-think his timing to accumulate funds for retirement, Todd is reconsidering his timber harvesting plan. A significant portion of his trees are white ash, now threatened by a new invasive insect to the area, the emerald ash borer. Tod realizes that he better harvest these trees while they are still living and the market is good., Todd asked the financial planner if there was any reason he couldn't put the money from his timber sale into a SEP IRA and it turns out there wasn't, though it would probably take four years of partial contributions to keep within the legal limits.

A friendly state forester explained the implications of capital gains taxes from the sale of the timber to Todd and he realized he had to approach it differently than he would if he purchased timber from a landowner and so he looked for a sawmill to buy the timber from him and then pay his logging company to harvest it. After some back and forth with one of the larger hardwood sawmills he worked with regularly, he agreed to a lump sum sale of marked trees, with the contingency that he would be paid his normal cut and skid rates to do the logging. The only way for Todd and his family to be comfortable with this was if he did all the logging and made sure it was done right.

Todd netted $185,000 from the sale of the timber after capital gains taxes. Upon his financial planner's advice, he set up a SEP IRA. Then, under the auspices of his business, Todd, in effect, placed this money in the SEP IRA, over 4 years, starting when he was 56. Note that only business income can go in the SEP IRA, so the impact of the timber sale revenue as personal income was that it offset his need to net an income from the business to support him and his wife. He could live on the timber sale proceeds while diverting business income into the SEP IRA.

Based on a 6% annual rate of return, this process of four large annual contributions ($46,250 each) will

result in an accumulation of approximately $321,000 in this account by the time Todd is 67. Note that if the $46,250 exceeds 25% of Todd's compensation in any given year, he can contribute up to the limit and spread the contributions over more years.

Where does this route lead in terms of the financial goal Todd and his wife calculated earlier?

Combining Todd's $148,000 from the IRA, $262,000 in anticipated savings, $275,000 from the sale of equipment and $321,000 in the SEP IRA results in assets totaling $1,006,000. In this way Todd has met his retirement goal simply by changing the order of things on his route and not by sacrificing anything in his current lifestyle. It was the outside advice from the financial planner that got Todd to realize he had alternatives and to reconsider some of his long- held plans for his woodlot.

The case studies of Josh, Gert, Ryan and Todd are meant to show the many considerations in thinking about retirement at different ranges and under different business and work circumstances. Each of them, even Todd at age 55, has multiple routes at their disposal. The most important point in each case is not leaving retirement to chance or taking it for granted. Actual calculations and long term planning are required. Sometimes calculations will show deficiencies – you should want this information, even if it is initially disheartening.

Planning for retirement is the same as planning for your long term future. The fictional case studies were meant to be relatable and to show plausible routes. This book provides enough information to get you started on your own planning, and some combination of the methods and routes shown here may well work for you. Consulting with a qualified financial planner is a good way to get a formal retirement planning process started.

This publication is not intended to be financial or investment advice. Please use it for informational purposes only.

ADDENDUM

Additional Reading on Retirement Rules & Planning

Much of the technical information about retirement accounts, rules and alternatives was referenced from public domain documents published by various federal agencies. These publications are useful resources. A list of these publications is presented here, along with a brief description of each. Each of these publications is available for download in a PDF format. A simple internet search of the title and agency should lead you to a download site for each of them.

Understanding the Benefits (Social Security Administration)

This document provides comprehensive information on various social security benefits available to retirees, disabled individuals, and other beneficiaries. It is designed to help individuals understand how benefits are calculated, eligibility criteria, and how to apply for benefits.

Your Money, Your Goals Toolkit (Consumer Financial Protection Bureau)

The Consumer Financial Protection Bureau's toolkit offers strategies and resources for managing personal finances effectively. It includes worksheets and educational materials that cover budgeting, handling debt, and understanding personal financial statements to make informed financial decisions. This toolkit serves as a practical resource for individuals looking to improve their financial literacy and manage their finances more efficiently.

Top-10 Ways to Prepare for Retirement (Department of Labor)

This document outlines ten crucial strategies for retirement planning as suggested by the Department of Labor. It emphasizes the importance of starting to save early, understanding one's retirement needs, contributing to employer-sponsored retirement plans, and considering the impact of various investment choices. The guide is aimed at providing individuals with actionable steps to secure a financially stable retirement.

Your Retirement Benefit: How It's Figured (Social Security Administration)

This publication explains the calculation of Social Security retirement benefits, detailing the factors

that affect the amount, such as lifetime earnings, age at retirement, and government work not covered by Social Security. It aims to help beneficiaries understand the process behind benefit calculations and what adjustments may affect their final benefit amount. This guide is useful for anyone nearing retirement age to plan their finances based on expected Social Security income.

Retirement Benefits (Social Security Administration)

This extensive guide from the SSA covers all aspects of Social Security retirement benefits, including eligibility, benefit calculation methods, family benefits, and the effects of working while receiving benefits. It integrates discussions on Medicare and its importance for retirees, providing a one-stop resource for understanding all the nuances of Social Security. The document is particularly valuable for individuals planning their retirement strategy and looking to maximize their entitled benefit.

Retirement Security & Decision Making (Consumer Financial Protection Bureau)

This research brief by the CFPB explores how retirees make financial decisions and manage their funds to maintain security throughout retirement. It offers insights into behavioral factors that influence decision-making processes and suggests strategies

to improve financial outcomes for retirees. This document is intended to aid financial planners and their clients in understanding and implementing effective retirement strategies.

Savings Fitness: A Guide to Your Money and Your Financial Future (Department of Labor)

The guide provides practical advice on setting financial goals, assessing one's financial health, and creating a savings strategy that accommodates short-term needs and long-term aspirations like retirement. It is designed to help individuals from various financial backgrounds tailor a personal savings plan that promotes financial stability and growth. This resource is useful for anyone looking to improve their financial literacy and prepare for future financial challenges.

Tax Guide for Seniors (Internal Revenue Service)

This guide assists seniors in understanding the tax implications of their income and investments, including how Social Security benefits are taxed. It offers detailed information on tax-efficient withdrawal strategies and the use of credits and deductions specific to seniors. The publication is useful for older taxpayers who wish to minimize their tax liabilities and manage their finances efficiently during retirement.

Contributions to Individual Retirement Arrangements (IRAs) (Internal Revenue Service)

This publication details the rules for contributing to IRAs, including tax deductions, contribution limits, and other vital tax implications. It is designed to guide individuals in making informed decisions about IRA contributions to maximize their retirement savings effectively. The guide is useful for taxpayers who are planning their retirement contributions and seeking to understand the associated tax benefits.

Choosing a Retirement Solution for Your Small Business (Department of Labor)

This document offers a comparative analysis of various retirement plans suitable for small businesses, including SEP plans, SIMPLE IRA plans, and 401(k) plans. It provides guidelines on setting up these plans, the benefits to employers and employees, and the tax advantages each plan offers. This is an indispensable resource for small business owners looking to establish a retirement plan benefiting both their business and their employees.

Taking the Mystery Out of Retirement Planning (Department of Labor)

This comprehensive guide provides detailed information on planning for retirement, including how to budget for future needs, understanding various retirement vehicles, and strategies to maximize retirement income. It is aimed at individuals who are approaching retirement and need a structured plan to manage their finances effectively. The document helps untangle the complications of retirement planning, making it accessible and actionable.

Distributions from Individual Retirement Arrangements (IRAs) (Internal Revenue Service)

Focusing on the rules and tax implications for distributions from IRAs, this publication is critical for retirement planning. It ensures compliance with the tax code while optimizing tax situations for retirees. The guide is particularly valuable for individuals beginning to make withdrawals from their retirement accounts, providing clear guidelines to minimize tax liabilities.

Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans) (Internal Revenue Service)

This guide provides detailed instructions on setting up SEP, SIMPLE, and other qualified retirement

plans suitable for small businesses. It explains the benefits, obligations, and tax implications of each type of plan, aimed at helping small business owners choose the best retirement saving options for their employees and themselves.

Consumer Insights on Managing Funds at Retirement (Consumer Financial Protection Bureau)

This document provides insights into how retirees manage their funds and make financial decisions post-retirement. It discusses the challenges and strategies involved in maintaining financial stability throughout retirement. This brief is useful for financial planners and retirees alike, offering data-driven insights to improve the management of retirement funds.

Future Self Tool (Consumer Financial Protection Bureau)

The Future Self Tool is designed to help individuals connect with their future selves to improve financial decision-making, particularly for long-term financial goals such as retirement saving. This tool includes exercises and motivational techniques to help users visualize and plan for their future, enhancing financial resiliency and preparedness.

Other Publications

Three of the publication that were cited in this book are particularly useful and worth reading by anyone making financial plans for retirement (in no particular order)

Plan Your Prosperity by Ken Fisher

This is a comprehensive guide designed for investors who are living through the difficulties of retirement planning. Fisher is a well-known financial expert and long-time columnist for Forbes magazine. He distills his experience into actionable advice for individuals at any stage of investing. The essence of the book lies in its straightforward approach to financial planning, making it accessible to a broad audience, from experienced investors to those just beginning to think about their retirement.

Fisher emphasizes the importance of personalized investment strategies, arguing that one-size-fits-all advice often falls short of meeting individual needs. He encourages readers to think critically about their own financial goals, risk tolerance, and investment timeline, guiding them through the process of crafting a plan that aligns with their unique circumstances. A key takeaway is that successful retirement planning starts with clear goal setting, followed by the development of a tailored investment strategy to achieve those objectives.

The Entrepreneur's Guide to Financial Well-Being by Wayne B. Titus

This book offers a thorough roadmap for entrepreneurs looking to secure their financial future while living the realities of running a business. It is not a retirement book per se but discusses planning for your future financial well-being. Throughout the book, Titus emphasizes the importance of integrating personal financial planning with business financial strategy, arguing that the two are intrinsically linked and essential for achieving long-term financial stability.

Titus looks into specific financial strategies tailored for entrepreneurs. He covers a wide range of topics, from retirement planning and tax optimization to risk management and estate planning. Each chapter provides actionable advice, real-life examples, and practical tools to help entrepreneurs make informed financial decisions. For instance, Titus explains how to structure a business to take advantage of tax efficiencies and how to create a diversified investment portfolio that aligns with the entrepreneur's risk tolerance and long-term goals.

The New Retirement Savings Time Bomb by Ed Slott

This book addresses the challenges and opportunities facing individuals as they plan for a secure and prosperous retirement. Slott, a recognized authority on retirement planning and tax laws, dives deep into strategies designed to protect retirement savings from various "time bombs" that can erode wealth, such as taxes, market volatility, and changes in legislation.

Slott makes a good argument for proactive retirement planning in his book, emphasizing that traditional retirement saving strategies are no longer sufficient due to longer life spans, an uncertain Social Security future, and a challenging tax environment. His primary focus is on the tax implications of retirement savings and strategies to minimize tax liabilities, thus maximizing available funds in retirement. He strongly advocates for tax diversification, highlighting the advantages of Roth IRAs and Roth conversions as means to generate tax-free income in retirement and avoid common tax pitfalls associated with traditional retirement account withdrawals. Throughout the book, Slott simplifies IRS tax codes and regulations using clear language, real-life examples, and case studies, making the material accessible to general readers.

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About the Author

Steve Bick joined the forestry world in 1988 and has been trying to understand it better ever since. Known as a polymath forester, his practice encompasses everything from climate adaptation to stump measurements and the Theory of Constraints. Steve earned an AS in Conservation from Herkimer College, followed by BS and MS degrees from the SUNY College of Environmental Science & Forestry. He received a PhD in Forest Management & Economics from Virginia Tech. Steve is an SAF Certified Forester, an ACF member and a licensed forester in Vermont. He works with public agencies, organizations, and businesses to enhance the forest product supply chain, solve problems and help advance forestry. He is the director of the Vermont Forest Business School, where he offers six-month programs for mid-career small business owners. Steve focuses on turning complex theories into simple, practical applications and contributes to the forestry community through his writing, research, and teaching.

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Darby Bick is responsible for the book's cover design. I'd be lost without her sense of color and proportion. She also had the fun job of listening to many sections of *After Wood* read aloud to locate typos.

Thanks to anyone I may have overlooked – people help me all the time and I try not to take them for granted.

– Steve Bick

Books by Steven Bick

Timber Measurements: A Practical Guide for Working in the Woods

Forest Enterprises of the Adirondacks

Northern Tree, Timber and Woody Biomass Volume Tables

Adirondack Forest Owner's Manual

Harvesting Woody Biomass: A Small Business Guide

The Desktop Hardwood Log Reference Book

After Wood: Routes to Retirement

The Landowner's Guide to Conservation Easements (with Harry L. Haney)

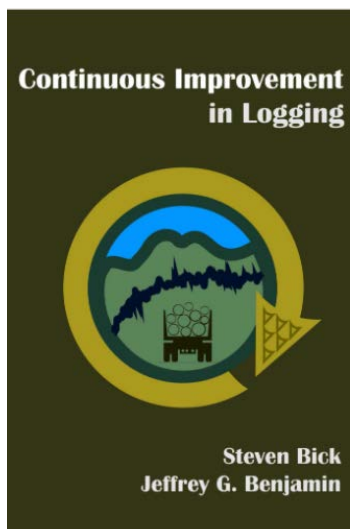
Continuous Improvement in Logging (with Jeffrey G. Benjamin)

APPENDIX

Resources & Publications

by Steven Bick

Continuous Improvement in Logging



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PATH v. 2.1

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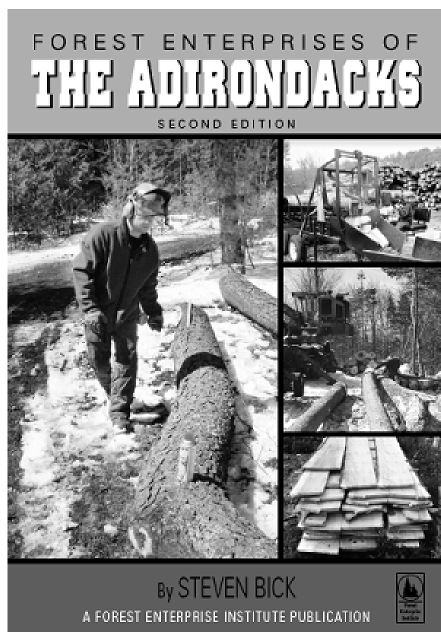
Forest Enterprises of the Adirondacks



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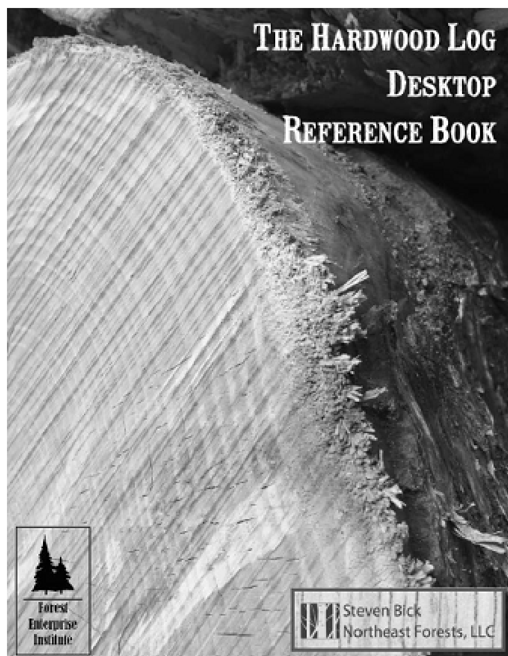
The Hardwood Log Desktop Reference Book



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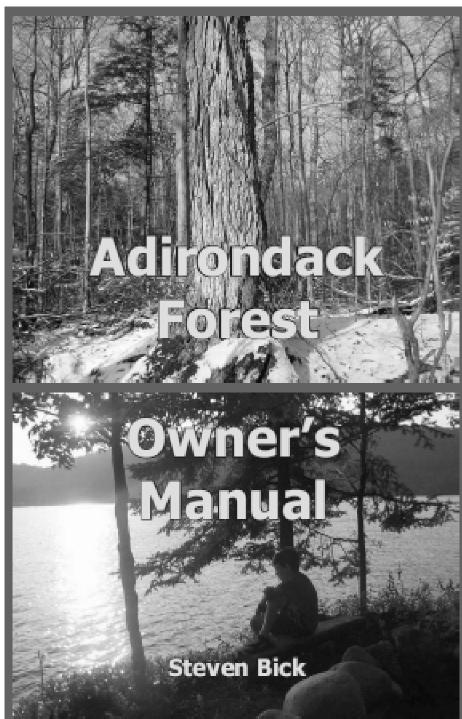
Adirondack Forest Owner's Manual



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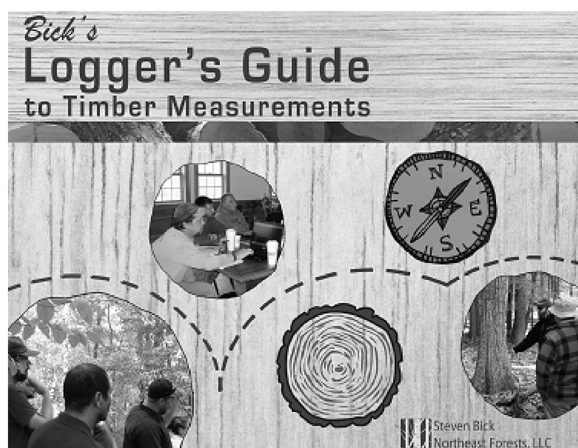
Logger's Guide to Timber Measurements



Download link:

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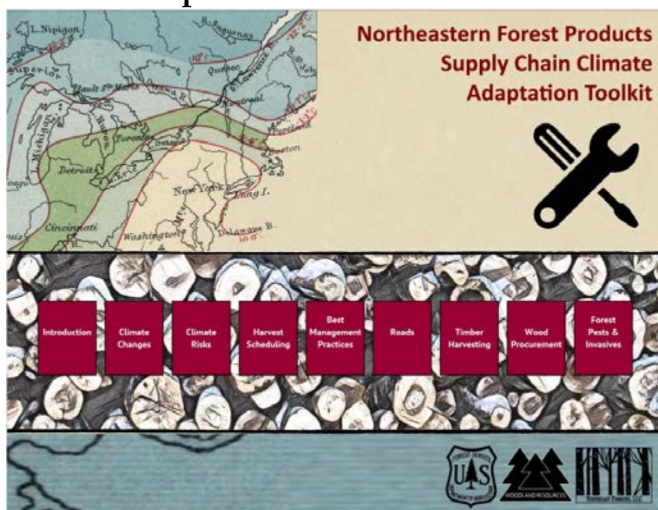
Northeastern Forest Products Supply Chain Climate Adaptation Toolkit



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