BUSINESS MATTERS

SUMMER 2014

DON'T NEGLECT YOUR OWN FINANCIAL PLAN

If you're responsible for the financial health of a company, it's easy to neglect your personal wealth management goals. Finding the time to create a personal financial plan, however, is critical. A good plan documents your current financial picture and enables you to make the best spending, saving and investing decisions going forward.

IN AND OUT

Financial planning is the process of selecting and applying specific strategies to reach your goals. So if you haven't already, identify what's important to you. Do you hope to retire early and sail around the world? Establish a charitable trust? Ensure your grandchildren's financial security?

You won't know if any of this is possible until you assess your current income, assets and expenses, including:

- Income from all sources,
- Investments and other assets,
- Basic, recurring expenses,
- Major, periodic expenses,
- Funds available for nonessentials, and
- Expectations about future income and expenses.

A personal financial snapshot can make it easier to see whether you're on track or need to revisit your current spending habits. For example, you may decide to cut back on luxury vacations to devote more money to your retirement plan or forgo a new car to send your child to a private school.

BIG PICTURE

Financial planning isn't only about cash flow. It's a "big picture" plan that also accounts for factors that affect net worth, such as insurance coverage and tax obligations. If your home or a vacation property isn't adequately insured, a fire could ruin an otherwise well-crafted financial plan. And overpaying

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TIPS FOR ADMINISTERING YOUR COMPANY'S 401(k) PLAN

Offering a 401(k) plan can help your company recruit and retain quality employees. But this type of plan requires you to adhere to stringent rules and maintenance requirements.

REGULAR REVIEW

Effective administration of a retirement plan involves a team, including the employer and plan sponsor, and possibly a CPA, third-party administrator, investment advisor, or specially designated group of trustees or board members. Check in regularly with your employee benefits advisors to ensure everyone is performing his or her role adequately.

Also ensure that you're fulfilling your responsibility to the plan. For example, have you funded your employee and employer contributions on time? Have you properly classified seasonal employees and independent contractors? Are employee census data and forms up to date?

DON'T DISCRIMINATE

After the end of a 401(k) plan year, you're required to perform certain tests. If your business makes an employer contribution, you'll need to ensure your plan covers the correct employees and has funded the correct amounts.

One potential test is the actual deferral percentage (ADP) / actual contribution percentage (ACP) test. It ensures that contributions don't discriminate in favor of highly compensated employees and may require the return of "excess contributions" by the highly paid group. To prepare for this test, keep payroll records up to date and accurate, including items such as compensation and deferral amounts.

CHANGES, CHANGES

Every plan has an enrollment date designating when employees can enter the plan (often quarterly or monthly). New employees also may need to accrue a period of service before becoming eligible. Regularly review your enrollment materials to ensure they adequately explain these dates to employees.

You may want to consider how often a participant can make election changes. For example, suppose an employee wants to change the amount he or she defers into your 401(k) plan. Your plan document needs to state when the participant can make this change.

If *you* wish to make any changes to your company's plan, you'll generally need to do so before the start of the next plan year. This includes opting to become a safe harbor plan, which guarantees the plan will pass certain discrimination tests as long as the employer makes a certain level of contributions.

Regularly review your enrollment materials to ensure they adequately explain eligibility dates to employees.

Another plan change that can be made only before the start of the next plan year deals with accrued benefits. You can't reduce already-earned accrued benefits, such as entitlement to a contribution. Like accrued benefits, restrictions to vesting schedules must be put in place before the start of the plan year. Similarly, expanding 401(k) plan features is usually better done before the beginning of the plan year.

SHIFT THE BURDEN

Overseeing a 401(k) plan and ensuring it meets regulatory requirements can be complex and time consuming. For this reason, many companies contract with a third-party administrator. Although you'll remain ultimately responsible for the plan, a third-party administrator can make managing it easier. ■

COLLABORATIVE MANAGEMENT

How to turn employees into trusted leaders

Small business owners are accustomed to running the whole show. But as your company grows, you'll need to start sharing responsibility for major decisions. Whether you've recruited experienced managers or developed "home grown" talent, empower these employees with the tools and authority they need to be effective leaders.

JOB SHARING

Successful delegation starts with a collaborative mindset. Stop thinking of your managers as employees and instead regard them as team members working toward the same common goals.

To promote collaboration and make the best use of your human resources, clearly communicate objectives so that, for example, managers aren't focusing on extracting new business from current sales areas when your priority is expanding into new territories.

You also must be willing to listen to your managers' ideas — and to act on the viable ones. Relinquishing control can be hard for business owners, but keep the advantages in mind.

A collaborative approach distributes the decision-making burden, so it doesn't fall on just your shoulders. This may relieve stress and allow you to focus on areas of the company that you may have neglected.

STRONG LINKS

Even as you move to a more collaborative management model and include employees in strategic decisions, don't forget to recognize their individual skills and talents. You and other managers may have an opinion about a new marketing plan, for example, but you should trust your marketing director to carry it out with minimal oversight.

To ensure that managers know they have your confidence, conduct regular performance reviews where you note their contributions and accomplishments. Help managers grow professionally by providing constructive criticism about their core responsibilities, leadership and teamwork.

You may also find it helpful to hire an outside consultant to conduct an organizationwide review. A confidential assessment of interpersonal, leadership, technical and business issues can help identify both the best team players and the weaker links (including you) that may be hampering growth efforts.

KEEP YOUR EARS OPEN

As you learn to trust your management team with greater responsibility, keep in mind that the process can be bumpy. In a crisis situation, your instinct may be to take charge and brush off your managers' advice. But it's critical to keep your ears open and be receptive to input from people who may one day run your company. ■

CALCULATING THE HOME OFFICE DEDUCTION JUST GOT EASIER

Good news if you generally claim a home office deduction! The IRS has introduced a faster, simpler calculation for what many consider a tedious annual chore.

In the past, you only had the option of deducting actual home office expenses. This involves calculating the percentage of your home that your office occupies and the rent, mortgage, utility and tax expenses you've paid.

With the new method, you simply multiply the square footage of your home office (up to a maximum of 300 square feet) by a fixed rate of $5. So if you use the simplified method, you may be able to claim as much as $1,500 per year. If you wish to claim a greater amount, you'll need to use the actual expense method.

What hasn't changed is who may claim the deduction. You must use your home regularly and exclusively for business purposes and it must be your principal place of business or where you regularly meet clients. Employees who work from home may not be able to claim the home office deduction. To learn more, contact your tax advisor.

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federal or state income tax will leave you with less capital to invest.

For this reason, estate planning goes hand in hand with financial planning — particularly for business owners. It's never too early to start thinking about what you want to leave your heirs, including how you'll transfer your business to the next generation.

A CRYSTAL BALL

Keep in mind that financial planning is a process. You'll need to review and update your plan at least annually to reflect new life events and changes in your income. Your financial advisor can help you design your plan and conduct periodic reviews to track your progress and make necessary adjustments. ■

LIVING WITHIN YOUR MEANS

It's human nature: No matter an individual's income, it's never enough. If you're having trouble paying current expenses *and* saving for future financial goals such as retirement, you need to take a long, hard look at your spending habits. For example, consider your:

Credit cards. Even if you enjoy a low interest rate, carrying a large balance — and worse, paying late fees — is an expensive practice. Prioritize paying off credit card balances and buying only what your cash balance allows.

Mortgage. One rule of thumb is that your mortgage shouldn't exceed more than 2½ times your family's annual income. Mortgage rates are still relatively low, so consider refinancing if you haven't done so in the past few years.

Utilities. Installing energy-efficient appliances and a programmable thermostat requires an initial financial outlay. But with lower utility bills, you'll quickly recoup that money and potentially save thousands of dollars over the years.