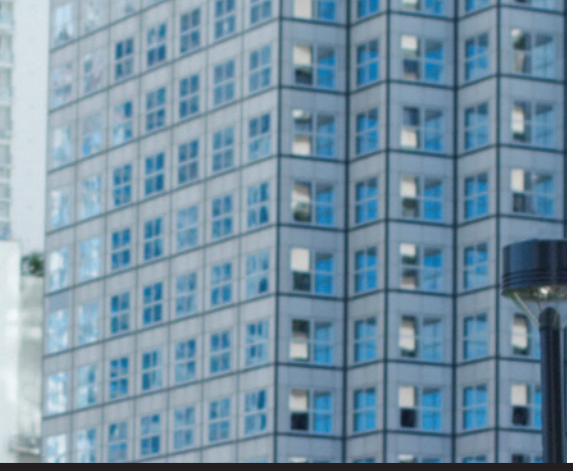

Courtesy of

Mark H. Ryan, MBA, CLU®, ChFC®

Financial Advisor • Senior Account Executive

175 Derby St. Suite 33
Hingham, MA 02043
Tel: (781) 741-9950 • Fax: (781) 741-9980
MarkRyan@FinancialGuide.com
www.markhryan.com

Volume 29 • Number 1

Business Quarterly

Building the Value of Your Business

Caught up in the day-to-day operations of your business, you may not be thinking about how much your company could be worth when the time comes for a transition. But the choices you make now, both large and small, can add to or detract from the future value of the company.

There are many ways for a company to grow, including entering new markets, developing new products, acquiring complementary businesses, hiring more employees, and increasing sales and marketing expenditures. You can grow the business rapidly by tapping into outside financing or more slowly by using the company's own revenue. With so many strategies to consider, you may want to develop a long-term plan to guide the growth of your business.

Your decision regarding the ultimate disposition of the company may influence many aspects of your current business strategies, including your form of business ownership. You may want to consider a C corporation structure for a business that may go public or an S corporation structure if a private sale is planned. Be sure to consult with your tax and legal advisors about the implications of each form of business ownership.

Transferable Assets

To begin, work on building and maintaining your company's transferable assets. These may include tangibles like property and equipment, as well as intangibles, including a customer base, brand recognition, and business processes. Depending on the type of business you operate, your intangible assets, such as copyrights or trademarks, proprietary lists of customers or prospects, and long-term contracts, may have substantial value at the time of transition. An attractive location can also add on value beyond an owner's equity.

Companies also derive intangible benefits from a strong management team with the knowledge and connections required to maintain

continued on page three

In This Issue

Boosting Benefit Plans with Roth 401(k)s

As you may already know, offering a retirement savings plan can help your business attract and retain employees, while making it easier for you to save for your own retirement. To support these objectives, business owners may want to consider adding a Roth option to their 401(k) plans. As the name suggests, the Roth 401(k) incorporates elements of both traditional 401(k) plans and Roth IRAs. Available since January 1, 2006, the Roth 401(k) allows employees to make Roth IRA-type contributions to 401(k) plans, but without the income restrictions and contribution limits that apply to Roth IRAs.

Contribution Guidelines

Contributions to a Roth account, whether it's an IRA or a 401(k), are nondeductible; however, earnings accumulate tax free, and qualifying distributions are also tax free. The **adjusted gross income (AGI)** phase-out range for those considering making contributions to a **Roth IRA** is $122,000–$137,000 a year for single filers and heads of household filers and $193,000–$203,000 for married joint filers in 2019. Note that these income limits don't apply to Roth 401(k)s. In addition, employees have the opportunity to save more money in a Roth 401(k) than in a Roth IRA.

The 2019 annual contribution limits for IRAs of all kinds are set at $6,000 for taxpayers under the age of 50 and $7,000 for those who reach age 50 or over that year. By contrast, the Roth 401(k) is subject to the more generous elective salary deferral limits that apply to traditional 401(k)s: $19,000 for taxpayers under the age of 50, and $25,000 ($19,000 + $6,000) for those who reach age 50 or over in 2019.

Contributions to a Roth 401(k) are made through payroll deductions, rather than through separate arrangements with a bank or other financial institution. Because these plans are administered by employers, contributing to them may be more convenient for employees than opening an IRA. An employee who is currently contributing to a traditional 401(k) plan could, for example, simply opt to have contributions diverted to the Roth side of his or her plan.

However, matching contributions made by employers can only be invested in a traditional 401(k), not a Roth 401(k). This means that, even if employees make all of their contributions exclusively to the Roth side of their plan, they would still owe tax in retirement on withdrawals from funds contributed on a pretax basis by their employers.

Also, the 401(k) annual deferral limits apply to all 401(k) contributions, regardless of whether they're made on a pretax or after-tax basis. If employees contribute after-tax dollars to the Roth 401(k), they may have to reduce or discontinue their contributions to the traditional side of the 401(k) plan to avoid exceeding these limits. However, as long as employees comply with the limits, they can make contributions to both sides of their 401(k) plan.

The Roth 401(k), like the traditional 401(k), but unlike the Roth IRA, requires employees to begin taking distributions after the age of 70½. In addition, employees aren't permitted to withdraw their money tax free until they have held the account for at least five years and are at least 59½ years old. These provisions could make the Roth 401(k) less attractive to employees nearing retirement age.

Adding a Roth option to your traditional 401(k) plan can enhance your benefits program to not only attract and retain a quality workforce, but also help build your own nest egg for retirement.

Building the Value of Your Business

continued from page one

the business after the owner retires. In many cases, having a skilled and loyal workforce may also be considered a transferable asset in a sale.

Financial Performance

When growing your business, strive to establish a self-sustaining enterprise with steady revenue growth. The financial performance of a company is often measured by its free cash flow, or the cash that it generates before interest, taxes, depreciation, and amortization, less capital expenditures. In assessing the value of the company, a buyer may, for example, project a company's earnings over the next five years based on the current cash flow. This projection will take into account any outstanding debt, as well as whether revenue growth and margins demonstrate a history of consistent growth.

Businesses are often more efficient when they focus on their core competencies, rather than diversifying too broadly. So, if your company has product lines or offers services not closely aligned with the firm's core business, consider whether these areas are profitable or represent a drag on the company's resources. Selling off non-core assets may provide funds to help pay off debt.

You may also want to restructure agreements or contracts that may be objectionable to a potential buyer, such as a long-term lease, licensing contracts, employment contracts, and loan agreements. Long-term leases may be an asset provided the terms are favorable, the location is suitable, and the size is right. If, however, the company is likely to outgrow its facilities before the lease is up, or if potential buyers want to move the firm's operations, a short-term lease may be more appropriate. Or, you may seek to formalize certain verbal agreements to ensure the company's relationships with key customers or suppliers continue after the transition.

For a detailed analysis of your company's value, contact a professional business appraiser who is familiar with your industry. Even if you have no immediate plans to leave the company, an estimate can help you identify ways to maximize the value of the business in preparation for a future exit strategy.

Profit Sharing: Age Can Make a Difference

For quite some time, **profit-sharing plans** have been recognized by many small business owners and professionals as effective, qualified retirement saving tools. Generally, these plans allow employees to share company profits, as employers make contributions to participant accounts based on each participant's annual compensation. However, if you are an older business owner, you may want a plan that provides you with the opportunity to maximize your contributions.

One strategy you may want to consider is an ***age-weighted* profit-sharing plan**. With this type of plan, it is possible to base contributions on a participant's age, as well as salary, benefiting older participants without running afoul of Internal Revenue Service (IRS) nondiscrimination requirements.

The **uniform points allocation formula** is typically used to determine benefits for an age-weighted plan. This formula assigns a predetermined number of points for each year of age, and some plans also set a maximum age limit. For example, if the formula allows for 10 points per year, an employee who is age 25 receives 250 points, whereas an employee who is age 55 receives 550 points. The allocation to each participant's account is determined by multiplying the employer's contribution by a fraction; the numerator is the total of points assigned to the participant, and the denominator is the total assigned to all participants.

The formula determines not only an allocation of contributions, but also an **allocation rate**, used for nondiscrimination purposes, which is a percentage that represents an employee's yearly compensation divided by his or her contribution allocation. In order for a plan to be nondiscriminatory, the average allocation rate of highly-compensated employees may not be greater than the average allocation rate of employees who earn less.

Age-weighted profit-sharing plans are some of the most flexible types of qualified plans available, and they can be ideal for small business owners seeking to maximize their own contributions. However, as with all planning matters, every situation is different and has its own variables and circumstances. Be sure to consult your qualified tax and legal professionals to determine the type of plan that best meets your needs.

Extending Benefits for Key Employees with Long-Term Care Insurance

Whether you run a small, family-owned business or a large corporation, attracting and retaining key employees is challenging. In addition to a competitive salary, many companies offer an array of core benefits, including a qualified retirement plan, health insurance, disability insurance, and vacation benefits. However, in some cases, Internal Revenue Service (IRS) anti-discrimination rules limit the benefits received by highly compensated employees. For executive-level employees, consider offering additional benefits, such as **long term care insurance (LTCI)**.

Professionals who have worked hard and built up assets over the course of their careers may be particularly concerned that their savings could be depleted if they need long term care (LTC) in the future. LTC insurance provides a daily, set amount of coverage that can be used to help pay for at-home care, an assisted living facility, or a nursing home. The cost of a policy varies with the daily benefit amount chosen, the maximum benefit amount, and the elimination period (the number of days for which the insured is responsible for care before benefits begin).

Advantages to the Business and Key Employees

Providing LTC insurance as an executive benefit can offer advantages to both the business and the employees covered. Consider the following:

- When offered to a group of key employees, an employer-sponsored group policy can often provide better coverage at a lower cost per insured than an individual LTC insurance policy.
- Underwriting requirements may be less stringent under a group policy, allowing an individual who might otherwise be excluded or charged a higher premium to obtain coverage at a lower cost.
- If the business pays the policy premiums, this amount may be tax deductible to the business, and the premiums are not considered taxable income to the employee.
- Because LTC insurance policies are consider "tax-qualified," benefits received are not considered taxable income to the insured. If the employee pays the premiums on the policy, a portion of the cost may be deductible to the employee as a medical expense.

In today's highly competitive marketplace, it is important for your business to be creative, yet cost effective when it comes to offering benefits to key employees. Executive LTC insurance may help your business attract and retain valued employees, while helping employees prepare for the future. LTC insurance can help preserve assets, provide options for care, and perhaps most importantly, bring peace of mind to your key employees. And that's a win-win for your business.