# Exercise 4 – Financial Planning

There are three approaches to determine how much you need to fund your planned lifestyle and whether your after-sale net worth will support it.

### *1. Simple Multiple Calculation*

One approach that is used by financial advisors to determine how much your net worth should be is to multiply the income you need to fund your lifestyle by 25 and then subtract your current investments. The multiplier or 25 is the inverse of 4% - a percentage that you would take out of your assets to fund your retirement. This is a simplistic approach that ignores the annual return on your investments and inflationary factors.

| | |
|---|---|
| Income You Need to Fund Your Lifestyle | $ |
| Multiplier | X 25 |
| Your Requirement for Investible Assets | $ |
| Less Your Current Investments Outside of Your Business | $ |
| Net Proceeds Needed from the Sale of Your Business | $ |

This approach does not consider your income tax rate, your expected return on your investments or inflation. But research has shown that it is an overall good estimate of how much you need to retire.

### *2. More Complex Approach*

This approach goes into much more detail about your assets and sources of income. First, list all your assets including the estimated value of your business.

| **Description of the Asset** | **Current Value, Net of Any Outstanding Debt** |
|---|---|
| Cash on Hand | |
| Qualified Retirement Plans | |
| Other Investment Accounts | |
| Cash Value of Life Insurance Policies | |
| Other Personal Assets that are expected to be sold to support your post-exit financial plan | |
| Estimated Net Proceeds from the sale of your business | |
| Any Real Estate Property that is expected to be sold to support your post-exit financial plan, net of any debt obligations | |
| Subtract any other debt obligations, excluding the mortgage on your primary residence | |
| | ----------------------------- |
| Total Net Available Investable Assets | |

I have excluded the death benefits on life insurance policies, because the objective of this plan is to determine your ability to fund your lifestyle while you are still alive. These values, however, are important in your overall estate planning calculations. Similarly. I have omitted your primary resident from this calculation.

Next, list all sources of recurring income.

| **Description of the Asset** | **Current Annual Income Stream** |
|---|---|
| Rental Property | |
| Expect social security income | |
| Any other source of recurring income | |
| | ----------------------------- |
| Total Annual Recurring Revenue | |

Every individual will likely have assets, liabilities, or income streams not listed above. Please adjust this exercise to meet your specific circumstances.

Next take the Total Net Available Investible Assets and multiply by your expected investment rate. This has historically been between 5% and 7%. Next subtract from this number your estimate tax payments on your income. This will give you an estimated annual after-tax cash flow before considering the impact of inflation over time.

| **Description of the Asset** | **Current Annual Income Stream** |
|---|---|
| Total Net Available Investible Assets | $ |
| Expected Investment Rate | % |
| Expected Pre-tax Income | $ |
| Expected Federal and State Combined Income Tax Rate | % |
| Expected Tax Payments | $ |
| Net Annual Cash Flow from Investments | $ |
| Total Annual Recurring Revenue | $ |
| Combined Annual Cash Flow | $ |