Common Financial Mistakes by Business Owners and Executives and How to Avoid Them

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Business owners and corporate executives face many decisions to ensure the success and stability of their financial future. Unfortunately, there are a few common areas where many make mistakes that can significantly alter the outcome of their plans.

Not Putting Enough Away for Retirement

If you own your own business, you need to be putting away about 20 to 30% of your annual income for retirement. The contributions don't have to be at the end of the year. Making smaller contributions throughout the year can help make saving more manageable. Paying yourself first is vital to securing your retirement. I often remind my clients, you can't borrow to fund your retirement.

Starting a Business with Retirement Assets

Increased corporate lay-offs have led some executives to take their professional destiny into their own hands and they are starting their own businesses. At the same time, financing for new businesses has tightened. Some pursue funding their start-up company with their personal IRA and 401(k) funds. However, it is more complex than simply making a withdrawal. Early withdrawals from retirement accounts carry a tax penalty of 10% as well as a tax bill at the end of the year. Avoiding the tax consequences is sometimes accomplished by rolling the funds into a corporate retirement account and investing in the company's stock. However, this solution presents risks worth careful consideration.

First, it may result in tax implications for those under 59 ½ years of age, if done incorrectly. Second, experts such as attorneys and CPAs are necessary to create the entities and financial instruments. And finally, concentrating an entire nest egg into one endeavor could lead to disastrous results. Saving up to start your own business and building a business credit history in advance is the safer approach to funding a start-up.

Scattered Accounts

The days of working for one or two companies for your entire career and receiving a pension are gone. Most professionals have participated in multiple employer retirement plans over the years and have scattered retirement accounts across their old plans where they effectively "set it and forget it." This presents multiple problems, such as not keeping track of how much you have saved, accounts are subject to narrowly limited investment choices, plans often carry higher and hidden expenses for accounts where the employees are no longer with the company, and accounts are not being monitored for investment performance. Consolidating these accounts into one single IRA Rollover centralizes your oversight and helps them become more productive.

Underfunding IRAs

Many people think that if they are participating in their 401(k) plan at work, they can no longer make a contribution to a traditional or Roth Individual Retirement Account (IRA). Even if you are participating in a company retirement plan, you can still make contributions. The

contribution limit for 2012 is $5,000 or $6,000 if you are 50 or older. At certain income levels, being covered by an employer-sponsored plan means you can no longer deduct your traditional IRA contributions. However there are other benefits to fully funding an IRA besides a tax deduction. IRAs provide a supplement to your other savings, tax-deferred growth and creditor protection.

Contributing to a SEP after Hiring Employees
Many small business owners utilize Simplified Employee Pensions (SEP) to save for retirement. For 2012, business owners can put away up to 25% of their income or $49,000 (whichever is less). However, a SEP cannot exclusively benefit the business owner(s). Once they hire employees, they must contribute an equal percentage for all their employees. When your business grows to include employees, re-examine your options for retirement plans.

Not Having Key-Person Insurance
The success of most small businesses is based on the expertise and value of the owners. If one person critical to the team dies unexpectedly, this can leave a hole in the execution of the business plan. Key-person insurance can help protect the financial stability of the business and help cover the cost of finding another professional with the right skills, background, and vision.

We can't will, borrow or rely on someone else to provide a financially secure future. Diligent efforts today, lead to a higher probability of success down the road.

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