Removing roadblocks

Budgeting, forecasting for a business and how it impacts personal finances

INTERVIEWED BY ADAM BURROUGHS

Website:
For more information on how to plan financially for your future, visit skodaminotti.com/plan.

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The personal lives of business owners, especially those with smaller companies, are intertwined with their business as long as it's in existence. It's a means of support for family expenses and their lifestyle. Good budgeting and forecasting for business owners and their companies are critical to achieving the goals of each.

"A lot goes in to budgeting and forecasting, but when the business fiscal year ends, it's a brand new ball game. Questions need to be answered before it begins," says Michael Van Himbergen, CFP®, a financial advisor at Skoda Minotti, and ProEquities, Inc.

"Review your financial situation and the financial situation of your business annually to make sure any obstacles — anticipated or otherwise — are handled before the end of the year so they don't become roadblocks."

Smart Business spoke with Van Himbergen about what to include in annual financial reviews and why they're important.

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What are the major considerations business owners should make as they budget and forecast?

Every goal needs a timeline, whether short- or long-term. Consider inflationary factors — the longer the timeline to achieve the goal, the greater the impact of inflation — and establish a target rate of return for each goal.

Make sure you're paying yourself first out of business revenue. Calculate that as an expense and build it into the budget every year.

Establish a retirement plan for yourself and your employees if you haven't already. There are a number of factors that determine what type of plan is best to implement, such as the number of employees, their average age, employer and/or employee contributions, to name a few.

If you want to cover college expenses for your children, the longer you wait the more it costs. Families need to save $500 to $600 per month per child from the time their child is born to get them through four years of an in-state public university. However, take care of yourself first to make sure you're on track for retirement before funding a child's education. Children will have their entire productive lives to pay back student loans. You can always help out down the road.

Also, don't forget to plan for weddings, big vacations and any other major purchases, accordingly. And it's always prudent to have three to six months of monthly living expenses to cover an emergency.

How frequently should business owners review their business and personal finances?

Every year. Is your plan doing what it's supposed to? Review the company 401(k) with employees. Is participation low? If so, determine the reason they're not participating and educate employees on the benefits of the plan.

Always review income projections. A cash flow analysis will show you whether income is stable or fluctuating.

Review personal investments at least annually unless there are significant changes that would affect longer-term planning. If that's the case, talk to your financial adviser/accountant to determine how that life-altering event could affect your long-term financial goals.

What, generally, are some ways to adjust to the new financial realities that follow a life-changing event?

Changing jobs, death or disability, death or disability of a partner or a key employee, having children, getting married or divorced are common life-changing events. When these events happen, it's important to determine how they impact your financial plan. Any of these can affect cost of living, the level and type of insurance protection that's prudent, and how much money is available to save and spend. Regardless of what's happened, it's important to stick to a financial plan and make adjustments as needed, rather than stop saving altogether.

Unexpected aside, define your goals to determine the level of risk that's prudent given your situation and the goal you're trying to obtain. Review your circumstances at least annually with your financial adviser, both in terms of what's going on in your life and in your finances, and you should have no trouble achieving your goals. ●

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