

Thinking About Starting a Business? Don't Quit Your Day Job...Yet

Part 2 of 2

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A business startup requires parallel planning in advance for your new business and personal finances. That's because business owners – whether acquiring ongoing businesses or starting their own companies from scratch – quickly find their business and personal finances are inextricably linked.

That means before you plan the business, plan your finances first. Last month's article discussed basic business startup considerations. Here are some steps to take as soon as possible:

Reduce your debts:

With the possible exception of mortgage debt, there's very little "good" debt in the life of a businessperson. So while you're researching your business concept and putting together your own business plan, start cutting back and erasing as much credit card and adjustable-rate debt from your personal life as possible. The credit crisis is making it tough for any business owner – even experienced ones – to borrow money at attractive rates. You'll have the most flexibility when you owe as little as possible.

Work on your emergency fund:

It's wise for everyone to have three to six months of cash set aside for basic living expenses in case they lose their job or face a medical emergency. But if you plan to rely solely on your new business for income, a well-funded emergency nest egg is especially important. Startups are rarely profitable from day one. If your income and expense projections for the first year are looking especially rosy, assume that your revenue will be 20% lower than you have predicted and that your expenses will be 20% higher. While you may have a fairly accurate picture of operating expenses, it is hard to predict the various costs of startup. Plan for unexpected expenditures to creep in. Have enough set aside to live on and to operate your business in the event that you sell nothing for the first few months.

Plan for healthcare and other basic benefits:

Take a look at the employee benefits package you have at your current job: what will you need to pay for yourself and what can you do without for awhile? You'll have more flexibility but, chances are, you won't be able to match your employer's buying power. Consider these benefits:

- Group health insurance: In most cases, you'll qualify for COBRA coverage, which means that you have the option to remain on your former employer's health plan for 18 – 36 months. The downside is that you will pay the full cost of your premiums plus a 2% administration fee. (NOTE: You may qualify for a partial cost reduction under the American Recovery and Reinvestment Act.)
- Retirement plans: Unfortunately, these are usually the first benefit to get cut in a new business. A variety of options exists for small businesses, and you can start very small. Check with your financial adviser and set a goal date to begin funding your retirement. (NOTE: if you are under age 59-1/2, try to avoid using funds in your current retirement plan.)
- Group life insurance: Compare rates for term insurance – it's probably less expensive than you realize. No matter what, **do not** go without life insurance coverage if you have dependents.
- Disability insurance: Even if you **don't** have this coverage at your current job, it is imperative you cover yourself when you start your business. Policies vary widely, so research what is best for you. You should price long-term disability coverage based on your present working salary so you can qualify for the highest possible benefit. The bottom line is: if your business cannot run or would have to be restructured without you, get it.
- Vacation and sick time: This is one of those "hidden" financial costs that are overlooked at

startup. Will the business grind to a halt if you take time off? Either plan on going without these “benefits” for at least for a year or consider the down time in your financial projections.

Starting a business can be a very lonely endeavor. But as Dale Carnegie famously said, “Most of the important things in the world have been accomplished by people who have kept on trying when there seemed to be no hope at all.” How true! In the end, few feelings can compare with the freedom of being in control of your own destiny. Whatever path you decide to take, remember that there are people in your court you can always turn to for advice when things get tough. Good luck in your new venture, and be sure to take time to enjoy the ride!