2017 GUIDE TO BUSINESS

Advice is only as valuable as its source. Those are important words to remember when you're seeking help with your business, and you'll find the best of both on the following pages. Staff from Hill, Chesson & Woody explain why the benefits package for your employees must be assembled with experience. And Bob Hudson from Northwestern Mutual tells why preparing now means you'll be able to sell your business later, when it's time to enjoy retirement. It's worth your time to read both.

Rest on experience

Hill, Chesson & Woody ensures employees receive the best benefits, helping your company realize its peak potential.

What keeps business leaders awake at night? Talent. Costs. Productivity. According to more than 4,000 organizational leaders in Gallagher's 2017 Benefits Strategy and Benchmarking Survey, the top organizational priorities in order are:

- Attracting and retaining talent
- Managing costs, specifically health care, which climbed 10% or more for recent renewals
- Promoting productivity by having engagement strategies in place

Organizations are striving to reach peak performance and become destination employers within their industry. But with challenges like changing workforce demographics, regulatory complexity and a competitive labor market, the right path might not be clear. That's why Hill, Chesson & Woody, a Gallagher Company, improves its clients' businesses by deploying and executing measurable wellbeing and engagement strategies helping employees thrive at work, at home and in the community.

Employers that aspire to compete at the highest level as a destination employer are setting their sights on a more holistic and integrated approach to benefits and compensation management. With data integration, long-term planning and a solid strategy they can reach their goals. Hill, Chesson & Woody was created because it saw an opportunity to revolutionize the industry through a strategic approach. Its approach is based on the following four foundations:

It is your strategic counsel, proactively aligning benefit solutions to your company's vision of the future.

Your employee benefits strategy is a key element of your organization's success. The first step is working with your executive team to establish shared understanding of your strategic priorities, because smart business decisions are aligned with your overall organizational vision. You can count on honest answers and solutions based on your specific goals. A customized benefits program that supports your overall direction requires continuous management to balance sustainability and affordability. Throughout the year, progress will be actively measured and communicated based on your key initiatives.

It serves as your extended team, providing the skilled people who expand your capabilities and care as much as you do.

The benefits landscape is large and complex – impossible for any person to navigate alone. Think of us as an extension of your organization, a team of expert teams available to guide and support you. You can have peace of mind knowing that when issues arise, you don't have to be the expert. We take time to provide the trusted answers and resolutions that free you to focus on your other priorities. We are invested in you and your workforce as part of your team.

As an expert resource, Hill, Chesson & Woody shares valuable knowledge and delivers deep understanding of the complex and dynamic benefits landscape.

A unique approach combines a staff of experienced domain experts, effective tools and a client-centric methodology that allows efficient delivery of a broad range of services designed to bring about cost-saving outcomes and client satisfaction repeatedly. Hill, Chesson & Woody stays on top of the ever-changing trends and regulations in health care, to keep you informed. Experts draw from a deep well of knowledge to educate you and your employees about the health care reform landscape. There is a lot of information out there. Training, webinars, workshops and communication initiatives empower you to help your employees understand and engage with their benefits program.

A passionate champion, Hill, Chesson & Woody loves what it does and devotes enthusiasm to your success.

The firm's passion comes from what it makes possible for you and your organization. Staff comes together as one to ensure the security and health of your employees as you fulfill your vision. Through a culture of creative collaboration, honest enthusiasm and authentic caring, Hill, Chesson & Woody goes above and beyond what's expected to ensure your organization's success. They're in your corner.

As the largest Gallagher office in the Southeast, Hill, Chesson & Woody offers full service delivery to over 300 clients headquartered in North Carolina with depth and drive. The firm's depth includes subject matter experts in health and welfare, tools and

methodologies with a proven approach that leverages an efficient platform to drive high impact results, and experience in a broad client base with varied benefit strategies spanning all carriers in the marketplace.

Integrity complements the expertise. Gallagher's reputation as a highly ethical company, and a commitment to transparency, also have contributed to its growth. For six years in a row, from 2012 to 2017, it has been recognized by the Ethisphere Institute as one of the World's Most Ethical Companies. It's the only insurance broker to receive this designation.

Like you, Hill, Chesson & Woody strives to be a destination employer and knows what it takes, having accepted many awards:

- Best Employers in North Carolina by *Business North Carolina* magazine, the Society for Human Resource Management – N.C. State Council and Best Companies Group
- *Triangle Business Journal*'s "Best Places to Work" (Small & Medium-size Business Categories)
- The Alfred P. Sloan Award for Business Excellence in Workplace Flexibility
- The Ovation Award for HR Excellence, an annual award presented by Capital Associated Industries Inc.
- American Heart Association's Fit Friendly Company

So stop tossing and turning. Rely on your expert partners at Hill, Chesson & Woody, a Gallagher Company.

HC&W

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The retirement trap

Failing to properly plan for your later years could keep you from selling your business.

There are two story lines here. The first involves a successful business owner. We all know one. We admire them, envy them, and maybe we are them. I'm calling mine Phil. He started his business long ago, when his needs were simple and ideas unrestrained. Anything was better than getting a job, so he jumped in at a time when clearing $1,000 per month left plenty of room for fun. Advance the clock 30 years, and Phil is getting close to age 60. For Phil, the business worked out and life is pretty good. He has a great family, beautiful home, a place at the beach and nice cars. He's a member of the golf club and gives generously to the fundraisers. Phil's got it made. He estimates the business is worth about $5 million and complains about all the taxes he pays from his $500,000 of profits each year.

Here's the second, seemingly unrelated story line. From a 2015 article in *Barron's* titled, "Retirement Rules: Rethinking a 4% Withdrawal Rate", Reshma Kapadia writes that the 4% rule was first introduced in 1994 by financial advisor Bill Bengen and soon became conventional wisdom. Some readers may even remember the 1980s, when 5%, 6% and even 7% were discussed as reasonable withdrawal rates. Kapadia quotes Wade Pfau, professor of retirement income at the American College of Financial Services: "The rule suggests that if retirees withdraw 4% of their portfolio in their first year of retirement, and adjust that initial amount for inflation in subsequent years, they'll have a low risk of depleting their portfolios in 30 years." Pfau goes on to say that today, 3% is a better starting point for inflation-adjusted spending and this is *not* expected to cover the cost of medical and long-term care costs, which need to be handled separately.

Let's go back to Phil, who luckily found a buyer for his business and got his asking price of $5 million. Phil has a good CPA, who keeps the tax burden on the sale to $1 million, so he nets $4 million. Phil is now quite proud of his big, fat investment account holding all this money. He's set, right?

Here's where the two story lines collide. Now retired and with time on his hands, Phil begins to design his retirement lifestyle by doing his reading and meeting with with a certified financial planner, and he does not like what he's learning. His business intuition was fantastic, but unfortunately, his financial planning intuitions had not kept up because he was thinking that the 10% yield he got from his business must certainly be something he could replicate from a well-managed portfolio. But his readings were directing him toward a 4% rule, and his planner was suggesting a 3% rule. Even the 4% rule applied to his $4 million portfolio yields $160,000 of annual retirement income. If he anticipates social security adding about $40,000 annually, his total income will be $200,000. And that's a 60% pay *cut*. The U.S. Small Business Administration Office of Advocacy reports that there are 28.8 million small businesses — those with less than 50 employees — in the U.S. There are many owners like Phil out there. And, frankly, I've painted the above picture about as rosy as possible. Yes, you might say he should have seen it coming, but let's be honest, it's hard to gain experience in something you might only do once in your life – selling your business.

Let's look at some possible ways that Phil could have better prepared for retirement.

1) Develop a plan for generating income in retirement.
   a) Perhaps Phil could have owned some real estate connected with his business and held onto it after the sale as a source of rental income.
   b) He could have built retirement assets outside of his business. He was making $500,000 per year. The rule of thumb of saving 20% for your future applies to everyone. It doesn't matter how you generate your income, you must be a good saver. For Phil, that's $100,000 per year.
   c) And, there are the traditional methods for creating income in retirement by owning income annuities and harvesting cash value from life insurance policies as a supplemental retirement resource.
2) Perhaps Phil should not sell his business. Is it possible to hire professional management to run the business and continue to receive some level of profits from the business? This becomes a serious concentration of risk issue, but maybe Phil wants to see family members run the business someday or perhaps there are key employees ready to step up to the challenge.
3) Once a realistic retirement income picture begins to take shape, work diligently to adjust lifestyle spending to your future retirement levels. Is that big house really where you get your enjoyment, or would you rather spend more time traveling than on home maintenance? Downsizing and paying off

debts, etc., could take a few years to smoothly accomplish, so starting early on your retirement income projections is important.

The feeling of financial security is derived from income, not assets. Yet by saving, we generally mean accumulating assets. Even though we might be successful at accumulating assets, anxiety remains common because we're not sure how to efficiently turn those assets back into income. The 20% savings rule and the 3% or 4% distribution rule are not rules at all. They represent conventional wisdom and must be tailored to an individual's circumstances. Start early and find a fee-based certified financial planner and develop your own personal roadmap for retirement and determine how transitioning your business fits into the overall plan. Don't get trapped.

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