Healthy Business, Healthy Bottom Line

A toolkit to help entrepreneurs achieve financial strength and wellness in West Suburban Chicago

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This toolkit may be downloaded at www.smallbusinessmajority.org/resources/healthy-business-healthy-bottom-line-west-suburban-chicago-toolkit

Introduction: Build your wealth and secure your health

As a small business owner, we know you wear many hats—from running the day-to-day operations of your business, to managing employees, building a brand and much more. And for aspiring entrepreneurs, this can mean juggling a traditional job while navigating the ins and outs of starting a new venture. One thing many entrepreneurs feel unequipped to deal while starting or running a business is how to handle business finances and maintain health.

A report by the Consumer Financial Protection Bureau found 7 in 10 American workers say financial stress is their biggest cause of stress, and almost half say they find dealing with their financial situation stressful.[1] The report also found businesses that implement "financial wellness" programs see increased productivity and improved bottom lines, revealing there is a direct correlation between financial health and a person's wellbeing.

If you are uneasy about money or your business's finances, you are not alone. In fact, roughly half of Americans are uncomfortable talking about money and personal finances. But by learning more about your personal financial capacity and becoming more financially fit, you can realize a healthier business and a healthier bottom line.

Small Business Majority created this toolkit to help you access materials and connect with local resources that can help you learn more about business finances, how to build your wealth, how to find responsible small business lending and how to access health insurance and connect with local support organizations—all to help you reduce your financial stress and become a healthier and more financially savvy entrepreneur.

This toolkit has been made possible with the support of Community Memorial Foundation.

Community Memorial Foundation

[1] https://files.consumerfinance.gov/f/201408_cfpb_report_financial-wellness-at-work.pdf

Part 1: Financial capacity 101—assessment and action

Financial capacity simply means you have the **knowledge and skills necessary to make educated money management decisions.** The is especially important for small business owners and aspiring entrepreneurs, as you often have significant overlap between your business and personal finances.

If you're not sure about your level of financial knowledge, you can start with a simple questionnaire from the Consumer Financial Protection Bureau that will give you a financial wellbeing score.[2] You can also explore MyMoney.gov, a website designed to cover the basic building blocks of managing your personal finances.

It's important to know there's more to financial capability than just monitoring your monthly finances. **Full financial capacity means you are confident and have the ability to plan your long-term finances, knowing that an unexpected health crisis won't set you back and that you'll one day be able to retire.** Taking control of your finances can feel like a daunting task, especially for a small business owner who has both personal and businesses finances to worry about. Luckily, there are many resources out there to help you break down the steps to achieving financial capacity.

Many organizations in and around Greater Chicagoland offer in-person help through financial coaching or short counseling that can assist you with budgeting, debt management and credit building. You don't need to pay hundreds of dollars to receive help to learn financial skills or to improve your credit score. A financial coach at a nonprofit organization will provide quality help that is no or low-cost. Small Business Majority has local community partners that can help you boost money management skills.

- Neighborhood Housing Services of Chicago, Inc.
- The State of Illinois Department of Financial and Professional Regulation also provides a list of nonprofit credit counselors that offer services at no cost.
- National Foundation for Credit Counseling agency and certified financial counselor locator: nfcc.org/locator/

In the sections below, we provide an overview of key personal and business finance topics that will help you become a more financially fit entrepreneur, including resources to help with your overall financial health and wellbeing.

Choosing the right bank for your small business

Navigating small business finances can be overwhelming, but it's important to understand all the factors that go into overseeing your business's daily finances. A good place to start with is a small business bank account. New small business owners can often be tempted to use their personal bank account to run their business, but having separate accounts makes tax time easier, as well as protects your personal assets if legal action is ever taken against your company. Separate accounts also make it easier for you track your actual business income and whether your business is generating enough revenue to allow you to pay yourself for your efforts.

Just like with your personal finances, there are both checking and savings accounts for businesses. Most small business owners start by opening a business checking account. Features of a small business checking account to consider include:

- **Minimum balance or deposits**—Is there a minimum deposit to open the account? Can you meet the daily or monthly minimum account balance required by the bank?
- **Transaction limits**—Does the bank limit the number of transfers or withdrawals you can make in a month? Are there limits on the amounts you can deposit or withdraw for free before incurring charges?

[2] https://www.consumerfinance.gov/consumer-tools/financial-well-being/

- **Fees**—If banks have limits on the transaction amounts, there may be cash handling fees for your account. These can be as high as $0.30 for every additional $100 transacted, so it's important to understand these fees before you open your account. Other potential fees include maintenance fees or fees for not satisfying the minimum balance requirement.

- **Mobile or online features**—Do you want to manage your business finances online or utilize mobile check deposits? Do you need to be able to make wire transfers online? While most national banks have integrated mobile banking and check deposits, your local credit union or community bank may not have the same level of technology.

- **Location**—Do you want a bank you can visit in person, or can you use an online bank? This is particularly important if you think you might want to build a relationship with your bank for future purposes, like pursuing credit products or loans.

Small businesses with high volumes of cash transactions, like a restaurant, may want to find bank accounts with higher transaction limits. Many small businesses that are just starting out may find that a **low-cost community bank or credit union** best fits their needs. Once you've done your research, we recommend that you **consult with a financial advisor to ensure you make the best decision for your business.**

Understanding your personal credit

After setting up a business banking account, you may be thinking about taking out a loan. Unfortunately, most banks view small business loans as a risky investment, but one way to boost your chances of securing funding is by learning what lenders will consider when reviewing your application. Lenders use the "5 Cs of credit" to measure your "creditworthiness" and your ability to repay a loan. These considerations help them gauge how good of a borrower you'll be and whether you are a sound investment. Check out the chart at right to learn more about what lenders look for and how you can strengthen your application.

Your credit score is an important part of seeking any type of credit, including a loan, as part of the "character" consideration. Five factors help explain how credit agencies evaluate the information in your credit reports when calculating your personal credit score. The better your score on each of these factors, the higher your overall credit score. These five main factors include:

- Payment History (35% of score): Pay bills and debt payments on time to improve your payment history score.

- Debt Utilization (30% of score): Maintain low balances on your credit cards and lines of credit. Generally, you should not exceed using more than 25-30% of your available credit.

- Credit History/Age (15%): If you have a short credit history, you can improve your score by building credit to demonstrate responsible financial behavior.

- Credit Inquiries/New Credit Checks (10% of score): Too many applications for credit and new credit accounts can bring your score down.

- Types of Credit (10%): A mix of different types of credit accounts can help boost your score.

The "5 Cs of Credit:"

1. **The first C is character:** Character is a lender's opinion of how trustworthy and reliable you are. Lenders will use your credit history to see if you have a good track record of repaying debt.
2. **Capacity/Cash flow:** Lenders are looking at your capacity or cash flow to make sure you have the money to repay the loan, plus interest.
3. **Capital:** Capital is how much of your own money you've invested in your business, or how much "skin in the game" you have. Capital shows a lender your level of dedication and commitment to your business.
4. **Collateral:** Collateral refers to property or assets that can be pledged as security like real estate, equipment or cars. By putting up collateral, your lender has the right to seize your property if you default.
5. **The last C is Conditions:** Lenders will consider outside factors that could hit your business, such as economic or industry factors.

Of these five factors, payment history carries the most weight, which is why it's so important not to miss payments. But your overall debt is close behind as the second most important factor.

Now that you know what lenders look for and the key factors in determining your credit score, think about how you and your business measure up in each of these categories. It's important to note that lenders may place more value on certain attributes over others. **You can check your credit score for free through our partners at Nav.com at nav.com/sbm.**

Learn how to separate your personal and business finances

Now that you're prepared to set up banking for your business and have learned the key factors in understanding your credit, it's important to know the connection between your personal and business finances. It may be tempting to use your personal finances to help out when your business needs a boost, but that may not be the best solution in the long run. If you ever decide to seek a small business loan, you should consider how your personal finances are intertwined with your business finances and how to separate the two. Separating your personal and business finances can help ensure you treat your business like the independent entity it is, while safeguarding your personal finances.

Why is separating your finances so important? Though there are many benefits to keeping your personal and business finances separate, two of the main reasons you should draw a line in the sand regarding your finances are for tax and personal protection purposes.

- **Taxes**: It is much easier to keep track of business expenses for tax purposes if you use a separate business account. Once you have your business checking account, keeping track of things like expenses is essential to properly filing taxes. Remember, from office expenditures to operational and inventory purchases, every receipt counts. When it comes time to file your taxes (or hand everything over to your accountant), a thorough collection of business-only information is going to save you a lot of time and a significant amount of stress.
- **Personal Liability:** Separating your personal and business finances is important for tax reasons, but perhaps equally, if not more, important is separating your personal finances for the sake of safeguarding your personal assets.

Now that we've distinguished two of the more significant reasons to keep your business and personal finances separate, let's take a look at a few of the steps you can take proactively to put this division in place.

- **Consider incorporating your business.** Incorporating your venture as a C Corp, S Corp, or limited liability corporation (LLC) can provide tax benefits based on your individual goals and situation, but more importantly help protect your personal assets, provided you set it up properly and maintain it correctly.
- **Open a business checking account.** A business checking account will streamline cash flow and make record keeping much more efficient, plus it can help signify to the IRS that your venture is a business and not just a side project or hobby, making more of your expenses tax deductible.
- **Apply for a business credit card.** Once you are incorporated, having a business credit card builds your company's credit history and reduces the risk of your business transactions impacting your personal credit.
- **Set a budget.** Being armed with a business credit card and a business bank account is a terrific start, but setting a budget is another step that can help you keep things in check. Preparing (and sticking to) a budget for your business can prevent you from delving into personal finances due to improper planning.

It's not unusual for a business owner to encounter a situation that may require him or her to pull in personal finances to fund their business dreams. While that's not always avoidable, the tips and strategies above can help you separate your personal and business finances, safeguarding you from the potentially devastating outcome of mixing your business and personal funds. For more help, visit a Small Business Development Center (www.americassbdc.com) or local SCORE office (www.score.org) near you.

How to tackle financial stress to improve your health and wellness

Now that you've learned more about business finances and how to protect your personal finances, it's important to understand how financial stress can impact your health and your business. Below are some key tactics you can follow in order to reduce your stress about money and improve your own and your employees' health.

1

TACTIC 1: Understand the financial pressures that may be impacting your business and your health as a business owner.

Anxiety about money and business finances can lead to stress and an increased risk for chronic diseases such as heart conditions and high blood pressure. Some stress-reducing tips about money include the following:[3]

- Make one major financial decision at a time.
- Track your spending.
- Identify your financial stressors and make a plan to tackle them.
- Recognize how you deal with stress as it relates to money and your business finances.
- Consult a financial advisor to help you better understand your business finances and how to get your spending on track.
- Ask for support if you need it.

2

TACTIC 2: Find local resources to help you tackle your financial stress.

In addition to the in-person credit, savings and money management resources listed in the previous sections of this toolkit, there are also professional therapists who can help you tackle your money stressors. There are many local resources in Greater Chicagoland that provide professional services, workgroups and classes that may help reduce anxiety and stress about financial issues. Contact the following organizations to learn more:

- Pillars Community Health
- Access Des Plaines County Health Center, Behavioral Health
- NAMI Metro Suburban
- Holbrook Counseling Center of the Archdiocese of Chicago
- PCC Community Wellness Center, Behavioral Health Providers, Melrose Park location
- Thrive Counseling Center
- The Behavioral Health Division in the Stickney Public Health District for residents of Stickney Township
- Lyons Township Mental Health Commission
- Aging Care Connections
- The Living Room
- Rosecrance LaGrange
- Samara Care Counseling
- The Community House
- Healthcare Alternative Systems
- Hamdard Center, Addison
- DuPage County Health Department
- Presence Behavioral Health
- Amita Alexian Brothers Behavioral Health and Amita Adventists
- Advocate Good Samaritan Hospital Behaviroal Health Division
- Linden Oaks Behavioral Health

[3] APA Dealing with Financial Stress at http://www.apa.org/helpcenter/holiday-stress-finances.aspx

Part 2: Small business financing 101—Are you ready for a loan?

Once you have taken some basic financial steps like establishing a small business bank account, building credit and separating your personal and business finances, you might be ready to seek funding to grow or expand your business. Before talking to a lender about a loan for your small business, you should understand the basics of your funding options. Having a better understanding of your options at the start can save you a lot of time, energy and money. We've identified the most popular types of loans for small business owners as well as their features and things to consider before applying for funds. This at-a-glance chart makes it easy to keep track of the different loan types, the lenders behind them and the terms they can offer you.

LOAN TYPES	MINIMUM LOAN AMOUNT	MAXIMUM LOAN AMOUNT	ANNUAL INTEREST RATES	TURNAROUND TIME	CRITERIA
Business Credit Card	$250	$25,000	13% – 25 %	1 – 3 weeks	Personal and/or business credit are main factor
Merchant Cash Advance	$200	$250,000	15% – 150%	1 – 7 days	Usually does not require high credit scores, but can be risky
Microloans	$500	$50,000	8% – 18%	1 – 3+ months	Usually does not require high credit scores
Nonprofit Loans	$250	$500,000	6% – 7%	6 weeks	Credit score and other factors taken into consideration
Online Marketplace Loans	$25,000	$500,000	7% – 30%	2 – 7 days	Credit score is less important, but still a factor
Small Business Administration (SBA) Loans	$50,000	$5,000,000	6% – 13 %	30 days – 6 months	Usually requires a minimum credit score
Traditional Bank Loans	$250,000	$5,000,000	5 – 10%	2 – 4 months	Usually requires a strong personal and/or business credit score

How to avoid an online predatory loan

Before you consider going online to look for a loan, it's important to understand that not all online lenders are created equally and some online loans may have unclear terms, hidden fees and very high interest rates. Be aware that obtaining an online loan for your small business can be risky. That's why Small Business Majority helped develop the Small Business Borrowers' Bill of Rights, a set of six principles we believe lenders should follow in order to ensure more transparency in small business lending.

While the law does not yet protect most of these rights, business owners should be mindful of them in order to avoid becoming a victim of predatory lending. These principles include having the right to see the cost and terms of any financing you are offered in clear terms in writing, the right to loan products that will not trap you in expensive cycles of re-borrowing, the right to transparency and honesty and more.

As you navigate your loan options, our Small Business Borrowers' Bill of Rights checklist can empower you with information about good and fair lending practices as you shop and compare loan products.

1. Make sure you ask the lender about interest rates, fees, monthly charges and any prepayment penalties upfront. Make sure they are clearly disclosed.
2. Make sure the payment amount and frequency are easily identified.
3. If you're refinancing, ensure there are no fees or fixed charges being added to the existing principal.
4. Make sure the lender is not imposing any artificial deadlines for accepting the loan offer.
5. Finally, if going through a broker, make sure their fees, including those paid up front and over the life of the loan, are clearly disclosed.

For more information on the Small Business Borrowers' Bill of Rights, visit our website.[4]

Learn how to become loan ready and access responsible local lenders

If you are thinking about taking out a loan, visit our online resource portal Venturize.org. Venturize is a national, online resource hub for small businesses that need help accessing responsible capital and becoming loan ready. Venturize offers unbiased education and resources to empower you to make the best financing decision for your business. Venturize is not a lender—but a free program from Small Business Majority.

On Venturize you can:

- Compare your small business loan options.
- Get loan ready with our loan application checklist, loan comparison chart, interest rate calculators and more.
- Find local lenders and no-cost small business assistance providers on our interactive map.
- Search our calendar of free or low-cost events for entrepreneurs, available locally and nationally.

Venturize also provides detailed information on small business lenders like community banks, credit unions and community development financial institutions (CDFIs). A CDFI is a nonprofit lender that caters to those with low to moderate income, underserved communities and start-ups and provides small business loans that are generally between the amounts of $500 and $250,000.

CDFIs can be a valuable resource for entrepreneurs because they provide in-person assistance to help people boost their business financial skills and credit-worthiness as they seek funding for their business. Some CDFIs also lend to start-up business owners who may not otherwise qualify for financing as an early-stage business without a proven track record.

In the Greater Chicagoland area, some CDFI partners for small business lending include the following:

- Accion in Illinois and Indiana
- LISC Small Business
- Women's Business Development Center
- CNI Microfinance Group

[4] www.borrowersbillofrights.org

Part 3: Wealth building tactics to secure your future

If your business has been operating successfully for several years, you likely are generating sustainable business revenue. This revenue allows you to earn income that you can invest and save to build wealth for your future plans and needs. Many people pursue entrepreneurship because they see it as path to economic freedom and independence; however, ensuring long-term financial security as a small business owner requires intentional planning. It's important to remember that wealth is not just income. It also includes financial assets such as stocks, bank accounts, receivables and etc; and non-financial assets, such as cars, property, jewelry, real estate or inventory. Below are some key tactics to follow to build your wealth and secure your future.

1

TACTIC 1: Understand cash flow to boost your bottom line

- Revenue and income are impacted by cash flow (cash flowing in and out of your business with payables and receivables). Well-managed cash flow helps to drive revenue. Poor cash flow management is the cause of 82% of all business failures.
- At the close of business day, after your business payables are fulfilled, distribute your income into two investments: 1) your business and 2) yourself—your salary and savings.

2

TACTIC 2: Build your business's cash reserves

- Use part of your business income to invest in a cash reserve—a measure of small business vitality and security.

3

TACTIC 3: Use a formula to distribute your business income

- Example: Distribute 40% of your business income back into business, 30% to your salary and 30% to personal savings.

4

TACTIC 4: Adopt a workplace-based retirement plan to invest toward lifestyle choices in later years

- There are several retirement plan options available to help you and your employees invest in the future. Many of these plans include tax benefits for starting a plan and for contributing to it, as well as benefit offerings that aid employee recruitment and retention. If navigating a group retirement plan is too overwhelming, we recommend learning more about the state's new retirement savings program, Illinois Secure Choice. Secure Choice is a state-run plan managed by an investment firm that:
  - Requires little work for the employer
  - Is portable
  - Is solely funded and owned by the employee
  - Available to businesses with 25 or more full or part-time employees
  - For more information on business participation in an Illinois Secure Choice plan, visit: ilsecurechoice.com

5

TACTIC 5: Get free assistance to learn more about business growth and wealth building

- Visit Small Business Majority's Entrepreneurship Program for resources related to retirement and wealth building at smallbusinessportal.org/retirement (available in both English and Spanish).
- SimpleGrowth offers resources specifically for Chicago area small businesses that need help launching or growing a business: simplegrowth.biz/chicago-resources.

Part 4: Access affordable health coverage for yourself or your employees

Being in good health is important to your productivity and success. However, we know that for entrepreneurs it's difficult to find health plans that are affordable and comprehensive. Additionally, the federal government has recently announced new rules regarding the Affordable Care Act (ACA) and many are confused about what this means for their healthcare options. Finding unbiased, quality assistance about the facts surrounding the ACA and small business health coverage options will protect both your wallet and your health. Below are some key tactics and local resources that can help you or your employees find comprehensive and affordable health coverage.

1

TACTIC 1: Understand the types of expenses you are responsible for as part of your health coverage

- **Premium**: The amount you pay (usually monthly) for insurance.
- **Co-pay**: A flat fee you are responsible to pay at the time of care.
- **Deductible**: The amount you owe out-of-pocket for health services that you receive before your insurance covers the remaining costs.
- **Co-insurance**: The percent you pay for medical care after you've met the deductible.
- **Out of pocket maximum**: The maximum amount you pay of the following out-of-pocket costs combined, which includes : 1) deductibles, 2) co-pays, and 3) co-insurance. After reaching your insurance out-of-pocket maximum, all services are covered at 100% until the new calendar year or plan year begins.

2

TACTIC 2: Ask yourself these key questions when comparing health plans

- How much would I pay for the premium each month?
- How much is the deductible, or co-pay, for each service (regular visit, emergency, specialist, etc.)?
- What is the co-pay for my primary physician versus the co-pay for a specialist in-network?
- What are the co-pay amounts for doctors and specialists who are out-of-network?
- What is the co-pay, or co-insurance, from hospitals or laboratory services that are in-network versus out-of-network?
- Is this an ACA-compliant plan (see below) that covers the 10 essential health benefits, such as prescription coverage, behavioral mental health treatment and maternity care?
- Are my prescription drug costs covered under this plan?

It's important to shop and compare before deciding on a health plan. As you shop for ACA-compliant plans, compare your anticipated use of services against your anticipated out-of-pocket costs (such as deductibles and out of pocket maximums) for those services. For example, for some people who frequently visit doctors, a higher premium with a low out-of-pocket maximum may be a cheaper plan out of pocket versus a plan with a lower premium and higher out-of-pocket maximum.

3

TACTIC 3: Learn the difference between ACA-compliant health plans and non-compliant plans

ACA-compliant plans offer comprehensive, major coverage to cover preventive health needs (e.g., mammograms, cancer screenings, behavioral health, etc.), as well as unplanned, emergencies. They also cover essential health benefits and prevent discrimination based on health status (such as pre-existing conditions, gender, race, sexual orientation and more).[5] ACA-compliant plans include those found on: Healthcare.gov, Medicaid coverage, plans from the U.S. Veteran's Administration, Medicare plans and some off-marketplace plans.

Plans that do not comply with the ACA do not offer the same financial and health protections as ACA-compliant plans. These include plans such as:

- **Short-term health plans (also referred to as "junk plans"):** Short-term plans are meant to fill a gap in an individual's coverage. Short-term plans typically exclude coverage for people with pre-existing conditions and are not required to cover essential benefits like prescriptions or preventive services such as cancer screenings. Short-term health plans may "appear" to be an annual medical plan because they can be extended just days short of the 365 days in a year, but these plans do not offer full coverage.
- **Association health plans:** Association health plans allow self-employed and small business owners to band together to purchase health insurance. Unlike ACA-compliant plans, they may charge different rates based on age, gender or location and they are not required to offer the same comprehensive benefits as ACA-compliant plans.

4

TACTIC 4: Learn how to enroll your business in small group coverage

- Besides offering access to healthcare, group coverage also helps businesses improve employee retention and may allow you to access certain tax credits (see Tactic 5). There are many options out there for group coverage and you'll likely want to work with a broker (especially one who is a member of the National Association of Health Underwriters, or your state association of health underwriters) to understand your options and the costs of various plans. You can also visit healthcoverageguide.org to better understand the differences between plans, group coverage costs and how to evaluate the options.

5

TACTIC 5: Learn if you qualify for a tax credit, subsidy on the individual marketplace or for Medicaid coverage

- The ACA provides a tax credit to small business owners who offer health insurance to their employees to help offset the cost of coverage. Employers must have fewer than 25 full-time equivalent employees (FTEs), average annual wages paid per FTE must be less than $50,000 and must pay at least 50% of the premium of a qualifying plan. To learn more about the tax credit, visit healthcoverageguide.org.
- Low- and moderate-income enrollees may be eligible for subsidies to help offset the cost of their premiums when they purchase coverage through Healthcare.gov. To find out more, visit GetcareIllinois.org.
- Many small business owners, employees or self-employed individuals have gained coverage through the expansion of Medicaid by states under the ACA. The ACA allowed states to expand Medicaid coverage to adults with income at or below 138% of the poverty line, and as of 2018, 33 states and the District of Columbia have expanded the program, including Illinois. You can find out if you're eligible by visiting the Illinois Department of Healthcare and Family Services website, GetcareIllinois.org or Healthcare.gov.

[5] Note: It is important to be aware that many plans that are not compliant with the ACA, such as short-term health and association health plans, may consider conditions such as allergies, pregnancy, heart disease and previous cancer as pre-existing conditions. They may appear cheaper on the surface, but they can be very costly if a health issue arises.

6 TACTIC 6: Access quality, no-cost local resources to help you or your employees get covered

- Visit Get Care Illinois to review eligibility for a marketplace plan or Medicaid at GetCareIllinois.org.
- Participate in free in-person and online interactive education about the latest facts on small business health coverage at smallbusinessmajority.org/events
- Search for no and low-cost quality healthcare at local health centers, such as Pillars Community Health, Access Community Health Center or PCC Wellness Center in Illinois at iphca.org/FindaHealthCenter.aspx
- Residents of Stickney Township have access to ambulatory care, behavioral health, dental and other health services at no or reduced cost depending on age and medical situation. Visit stickneypublichealthdistrict.org to learn more.