

Business Owners: What Is Your Wealth Gap?



June 2026

For all business owners, determining whether the proceeds from a business exit will be sufficient to support post-transition goals and objectives can be both daunting and complex. After years – often decades – of reinvesting in their companies, many business owners find that much of their net worth is concentrated in a single, illiquid asset: the business itself.

As they begin to contemplate an eventual exit, one of the most critical questions emerges:

Will it be enough?

Understanding the Wealth Gap provides a framework for answering that question with clarity and confidence.

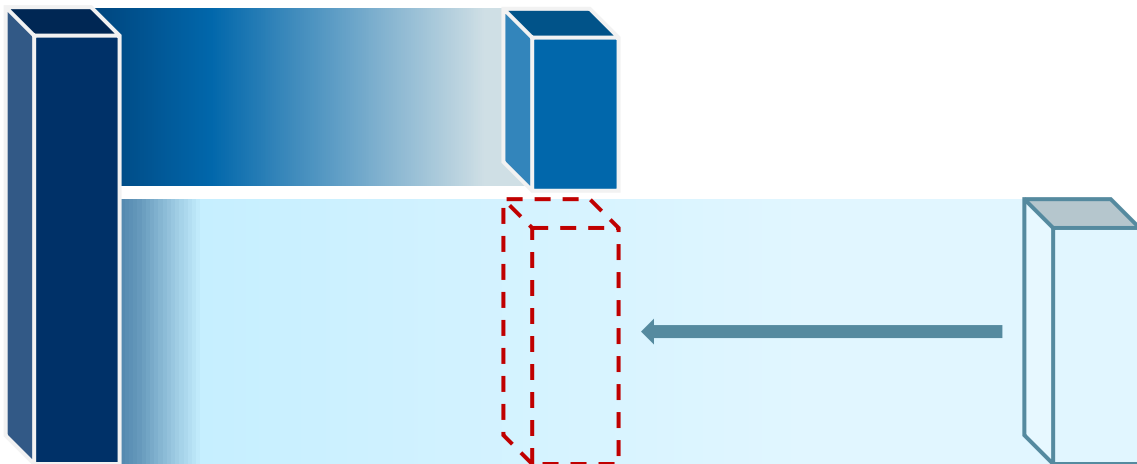
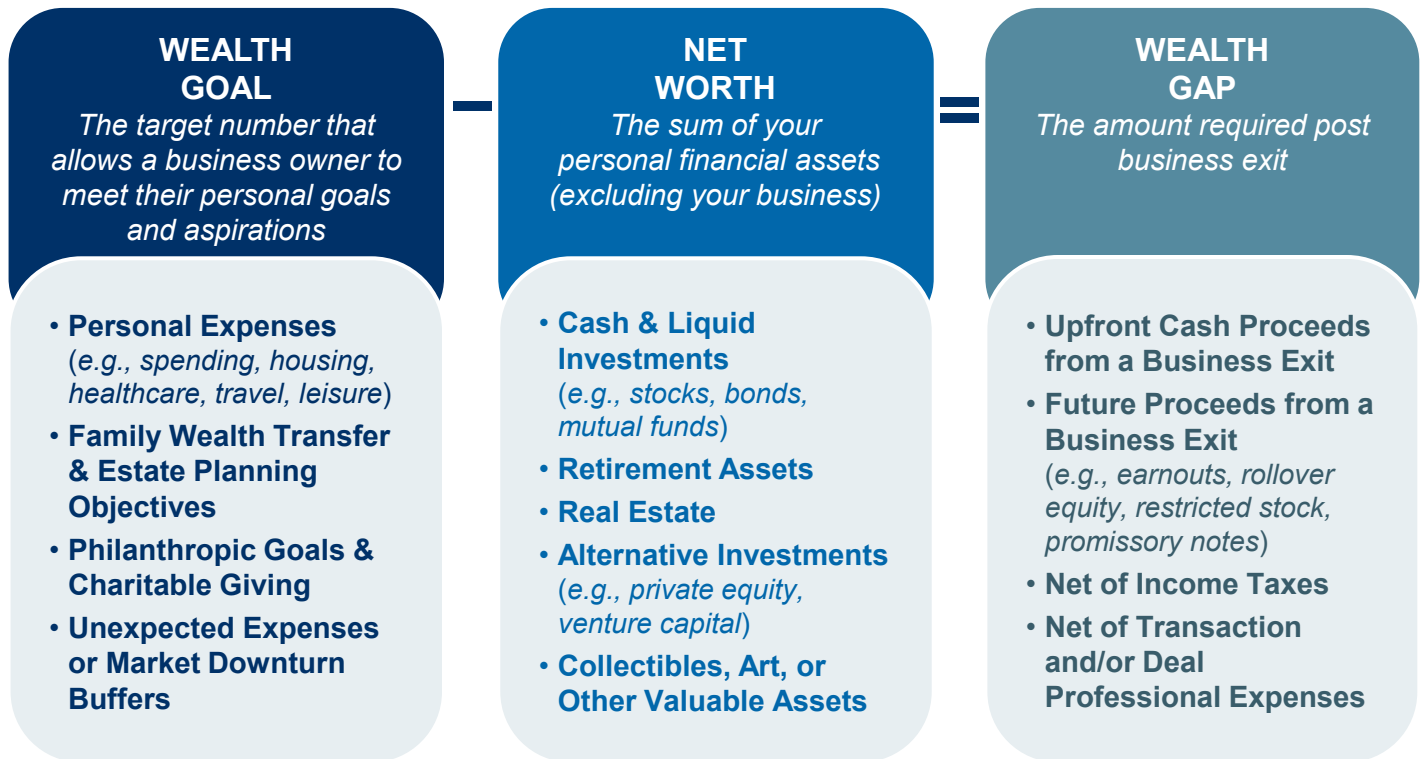
Importance Of The Wealth Gap

Understanding your Wealth Gap is one of the most critical steps for any business owner contemplating an eventual exit (even if it is potentially years away). This figure provides clarity around the single most important question owners ask: “Is it enough?” or “What’s my number?” By quantifying the gap between current financial resources and the future capital required to achieve post-transition goals, business owners can gain a clearer picture of what needs to be accomplished before exiting their business.

Without this key insight, it is easy to underestimate future liquidity needs, overestimate business value, or pursue an exit at an inopportune time. Knowing your Wealth Gap transforms an abstract retirement dream into a tangible, measurable objective – allowing you to align business growth, personal financial planning, and timing decisions around a target that truly secures your financial independence.

Defining The Components

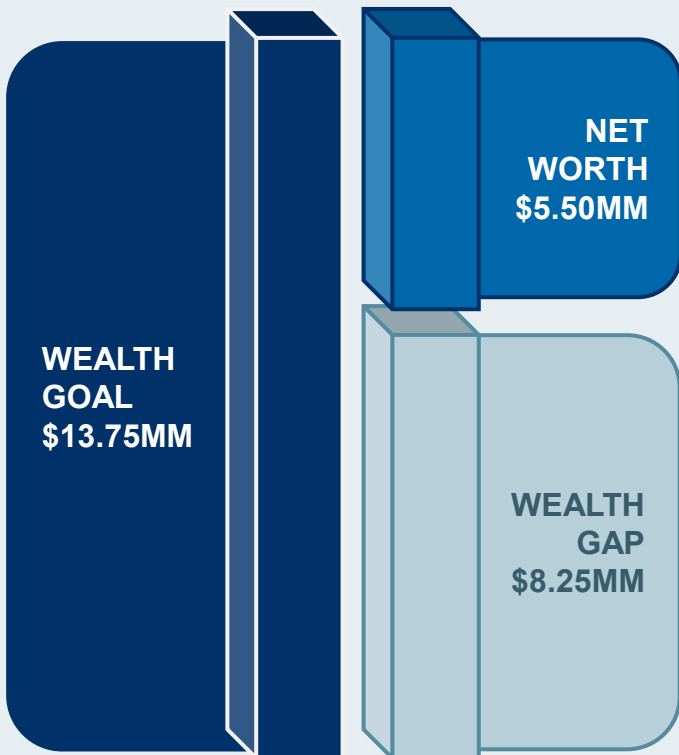
As detailed below, the Wealth Gap is calculated by subtracting your current Net Worth outside of the business from the Wealth Goal.



Determining Your Wealth Goal: A Basic Approach

The Wealth Goal is the pivotal component to the Wealth Gap calculation. A common guideline for determining the Wealth Goal is the “4% Rule,” which suggests that an individual can sustainably withdraw 4% of their assets annually without outliving their wealth. For example:

- If a business owner’s annual personal expenses are estimated to be **\$550,000**, then they would need a total **\$13.75MM** in investable assets ($\$550,000 / 4\%$) to sustain their lifestyle.
- If their current Net Worth (excluding the business) is **\$5.50MM**, then their Wealth Gap would be **\$8.25MM**.



Determining Your Wealth Goal: An Informed Approach

A more robust methodology, leveraging RBC Rochdale’s proprietary modeling capabilities & long-term capital market assumptions and advanced financial planning software, may help provide an enhanced estimation of your Wealth Goal. These types of comprehensive analyses generally incorporate:

- Personalized spending patterns over different stages of life
- Strategic investment allocation aligned with risk tolerance & goals
- Liquidity & flexibility of assets
- Inflation, taxes, and tax-mitigation strategies
- Monte Carlo simulations to illustrate different potential scenarios

Why use Monte Carlo simulations?

In an increasingly complex environment, traditional linear calculations often neglect the full spectrum of possible outcomes. Monte Carlo simulations, by contrast, provide a probabilistic view that accounts for variability across multiple factors, offering a more dynamic and insightful approach to decision-making.

Unlike linear estimations, which rely on fixed inputs and produce a single deterministic outcome, Monte Carlo methods generate a distribution of possible results.

This distinction is particularly valuable when modeling scenarios with inherent uncertainty, such as financial markets or strategic business exit decisions.

Why Does This Well-Known Heuristic Often Fall Short?

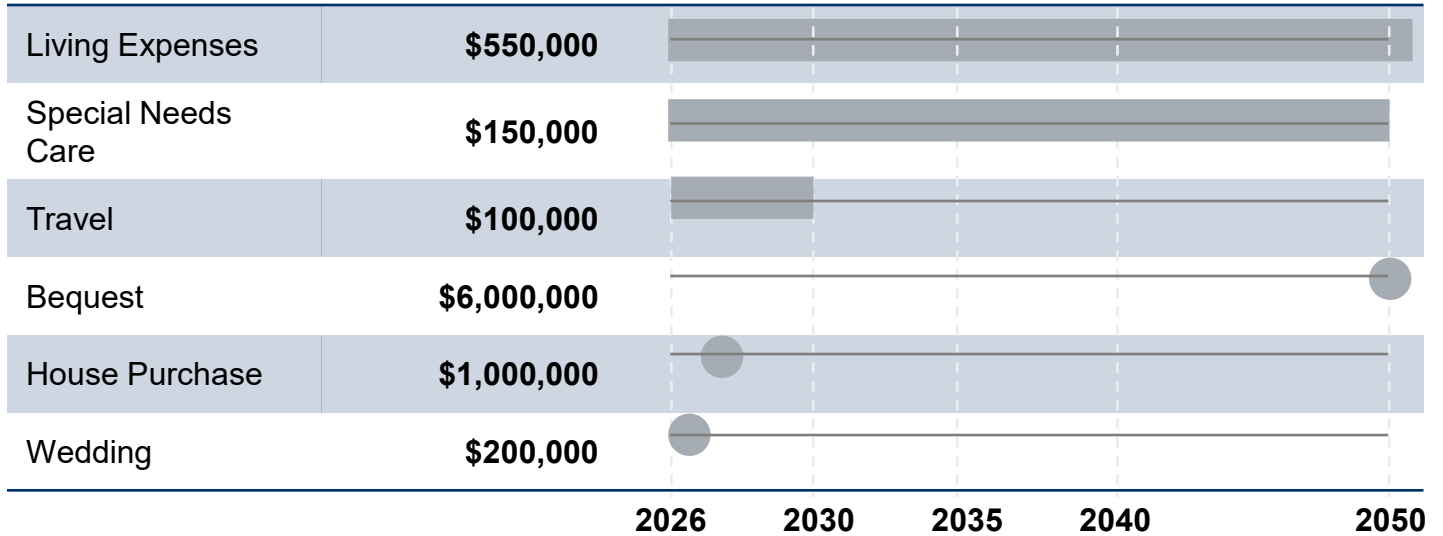
The “4% Rule” may be suitable as a preliminary Wealth Goal estimate, but it does not take several additional factors into consideration:

- Investment variables such as asset allocation, tax management, and market volatility
- Large or unanticipated future expenses such as a home purchase, family life events, or healthcare needs
- Long-term personal goals such as multi-generational wealth planning or philanthropic giving aspirations

The Case For A Comprehensive Wealth Assessment

A business owner is contemplating whether a potential offer on their business is enough to satisfy their Wealth Gap requirement. They identified the following financial goals & aspirations:

GOALS



Using a 25-year time frame as well as assumptions for market returns, inflation, and taxes, the Monte Carlo analysis produced the following illustration:

ILLUSTRATIVE TOTAL PORTFOLIO ASSETS¹

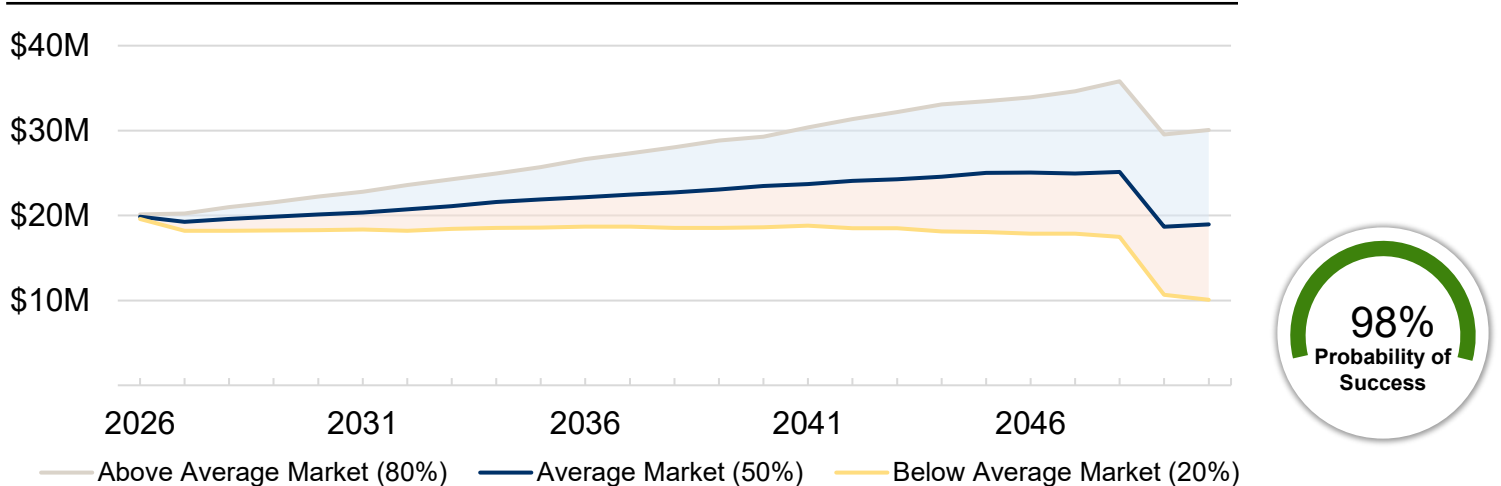


Chart example is for illustrative purposes only.

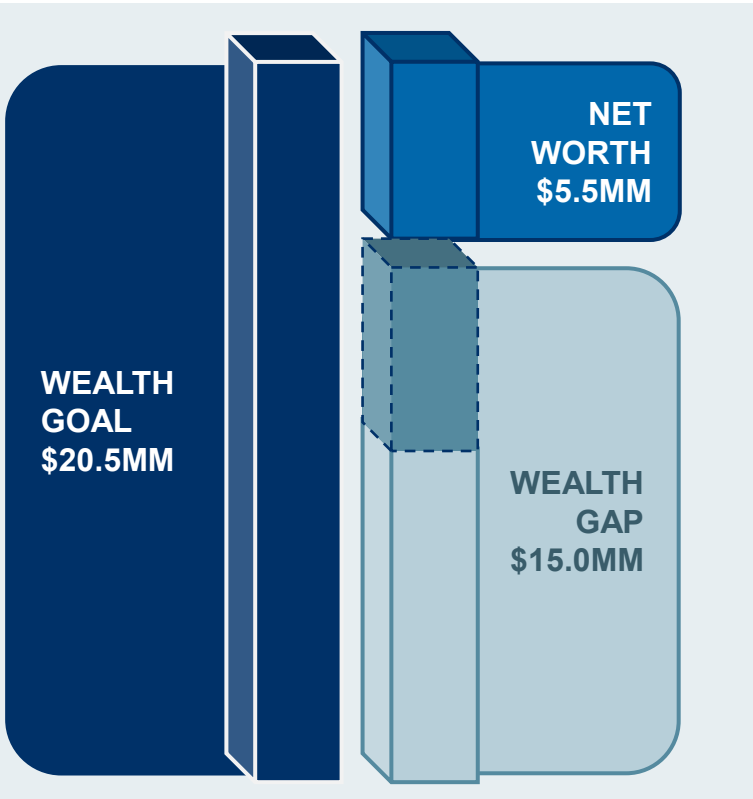
This illustration highlights the 20th percentile thru the 80th percentile paths of a 1,000 iteration Monte Carlo simulation, which represents the likely course of this client’s wealth based on the given assumptions. In 2026, the initial portfolio value reflects the addition of \$15MM to the existing \$5MM portfolio. Subsequently, the trajectory of wealth trends positively over the next 25 years, even in the face of significant real (inflation-adjusted) lifestyle spending (\$800,000 per year).

It is important to note that while the median path is illustrated in the figure, over the time horizon, 980 of the 1,000 trials produced a positive result (real wealth > \$0).

Also worth noting, in the year 2049 a bequest of \$6MM is illustrated as an outflow from the portfolio, which still results in an inflation-adjusted wealth figure similar to the initial post-exit value in 2026.

The Case For A Comprehensive Wealth Assessment (continued)

To reach the target probability goal (typically between 80%-90%, but in this specific example, over 95%), the business owner would need approximately \$20.5MM in investable assets today – their Wealth Goal. Taking into consideration their current investable assets (\$5.5MM), that would result in an estimated current Wealth Gap of \$15MM.



Let's Review

The Wealth Goal is a crucial element of the Wealth Gap calculation, and the results can widely vary depending on the type of methodology used:

- The Basic Approach resulted in a Wealth Goal of **\$13.75MM**.
- The Informed Approach resulted in a Wealth Goal of **\$20.5MM**.

The **\$6.75MM** difference between these two approaches speaks to why a more comprehensive analysis should be considered by any business owner ahead of exiting their company. While an accurate depiction of the Wealth Goal may not be the sole driver of future decisions, it certainly can help business owners more confidently plan for their ultimate exit.

Assessing Your Wealth Gap Today

Once the Wealth Goal is determined, a business owner can then evaluate whether their current Net Business Value is sufficient to meet their Wealth Gap. Net Business Value can be determined by subtracting Potential Taxes and Transaction Costs from the Anticipated Gross Proceeds received from the exit of the business.

WHAT IS NET BUSINESS VALUE?



Anticipated
Gross Proceeds
Received



Potential Taxes
& Transaction
Costs

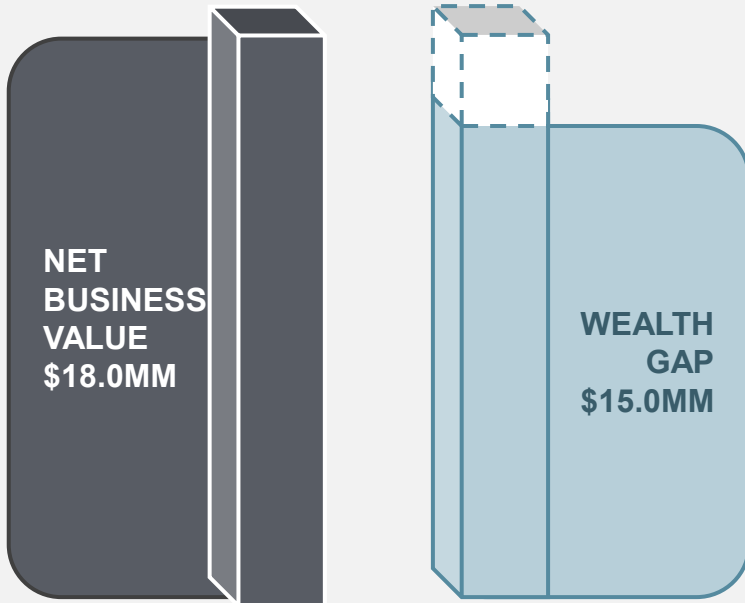


Net
Business
Value

Bridging The Gap: Surplus Or Deficit?

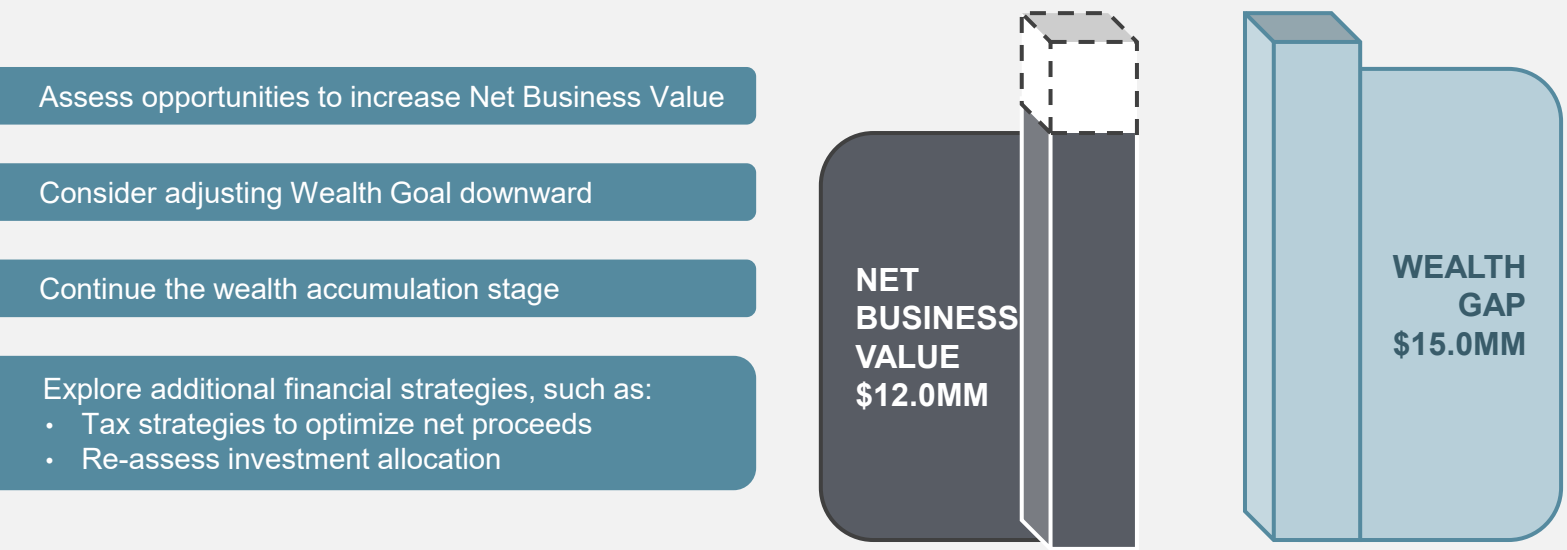
Now armed with all necessary information, a business owner can then determine whether they have a surplus or deficit which, in turn, can help inform what subsequent steps to take regarding adjustments to their company or exit strategy, the need to begin their personal and financial planning process, and/or considering alternate investment strategies.

If Net Business Value > Wealth Gap (Surplus)



- Greater flexibility in exit timing, options, & structure
- Increased ability to adjust Wealth Goal upward (e.g. lifestyle spending, generational wealth transfers, philanthropic contributions, etc.)
- Stronger negotiating position in deal structuring

If Net Business Value < Wealth Gap (Deficit)



- Assess opportunities to increase Net Business Value
- Consider adjusting Wealth Goal downward
- Continue the wealth accumulation stage
- Explore additional financial strategies, such as:
 - Tax strategies to optimize net proceeds
 - Re-assess investment allocation

The Importance Of Proactive Planning

The Wealth Gap is a measure of the distance between financial expectations and reality. It aligns personal, financial, and business objectives, helping owners make data-driven decisions about their ultimate exit. Given that the average business owner derives nearly 80% of their total net worth from their business², understanding the Wealth Gap is critical for:

- Avoiding surprises — whether business value is higher or lower than anticipated
- Mitigating risks associated with market conditions, taxes, and timing
- Ensuring a smooth transition that aligns with long-term financial security

In some instances, quantifying the Wealth Gap may reveal that an owner's personal financial goals are already within reach, enabling a transition sooner than anticipated without compromising lifestyle or security. In other cases, when there is a surplus, it opens the door to moved advanced planning opportunities such as wealth transfer strategies for future generations or structured philanthropic giving.

Closing Thoughts

A well-planned exit is not just about the business valuation—it's about ensuring financial independence and meeting life's goals beyond business ownership. Identifying the Wealth Gap today allows business owners to take proactive steps toward achieving a confident and successful exit.

Sources

¹eMoney Reports, Asset Spread-Total Portfolio Assets, Prepared for Spouse 1 and Spouse 2 Wealth Gap, 2026

²The Exit Planning Institute, 2023 National State of Owner Readiness Report, 2024.

IMPORTANT INFORMATION

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