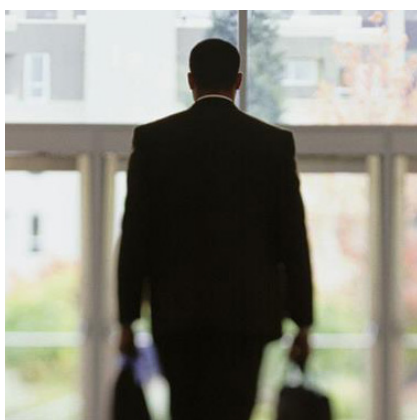


Is Your Business Ready for Your Retirement?

As your family and business change, so should your plans for their futures



Key takeaways

- As a business owner, you need to develop a solid succession plan that defines the role that your company will play in your retirement and estate plans
- Many owners lack a comprehensive plan that addresses the various issues that may surface when exiting the business for retirement or other reasons, including sudden illness

The United States is a land of family-owned businesses. These start-up and do-it-yourself enterprises make up approximately 87 percent of all companies in the United States.* And yet, many smart, capable business owners lack a comprehensive succession plan that addresses the various issues that will crop up when they leave the business for retirement or other reasons, including sudden illness.

According to [businessinitiative.org](https://www.businessinitiative.org), only 30 percent of family businesses will survive into a second generation of family leadership. That means that as a successful business owner, you need a plan that does more than assume your children will take over the business when you retire. You should consider the possibility that one or more of your children may not want to follow in your footsteps, or that one child may be a more capable leader than the other. The last thing you want is for your life's work to end up in the hands of a child who doesn't want it or a business partner whom you didn't want to take over.

A comprehensive approach to your succession plan

As a business owner, you need to develop a solid succession plan that defines the role that your company will play in your retirement and estate plans. Basic questions to ask are: Should you sell the business outright for a lump sum? Or should you sell only a portion of the company and draw an income from your remaining interest? If the company is a partnership, how will that relationship affect succession, retirement, and estate planning? Be sure to bring your financial and legal advisors into the conversation sooner rather than later, so that together you can develop a customized solution for your unique circumstances.

*Source: <https://www.businessinitiative.org/statistics/small-businesses/family-owned/>

Negotiating out of partnerships

Succession can be a bit trickier when there are partners involved, and those complications can spill over into retirement and estate planning. Often, a clean cash-out may be the simplest way to go. It can be done through a buy/sell agreement covered by life insurance or by bringing in a private equity group. Grooming a child to take your place upon retirement and become a new partner is certainly feasible, but all parties should be part of the succession planning well in advance of your goodbye party. The key is to have considered and addressed all of the elements that have the opportunity to affect your succession, retirement, and estate plans.

Family business succession planning

By far, one of the most common desires of business owners is to keep the business in the family. If you have children who develop an interest in your company, you have the opportunity to turn a business into a legacy. Start by creating a board of outside advisors who can help you look at your family's role or potential role in the enterprise. Family dynamics can quickly become personal, so a select group of dispassionate voices can help when you create a succession plan.

To create a solid succession plan, customization is vital. There are a number of tools that can be utilized, such as revocable trusts, family limited partnerships, and limited liability companies. These options can be used in conjunction with one another, and can offer flexibility and control if you want to keep a toe in the water. This can help ease the transition if a child is still green or if one child is much more capable at leading than another.

To help ensure that assets are passed on equitably when one child is likely to be awarded the company's top spot, consider giving a less-involved child nonvoting stock, but be wary of creating a "brother's keeper" scenario between siblings. Another option would be setting up a limited liability company, which can tidy up succession and help avoid abuses by offering a fixed percentage of the business to each child. Or, you can also place a portion of your assets in a trust, managed by an objective trustee who will ensure that a beneficiary isn't using your legacy to purchase a fleet of Ferraris.

Succession plans can be structured any way you like, just so long as you have one in place. Working until you die and expecting your children to sort it out is a surefire way to lose the family business you worked so hard to create. Careful planning will not only help your successors take over your company but can also help to minimize the estate tax burden on the next generation.

Regardless of your unique circumstances, planning ahead for your retirement from the family business will help prepare you for that inevitable transition. The process begins with a conversation with your wealth, tax, and legal advisors. Once you put a plan in place, revisit it and update it as needed. As your family and business change, so should your plans for their futures.

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