

Business Succession Planning

“The Future is Now”

When it comes to your business, hoping for the best won't ensure its future. To illustrate the point, let's take a look at the hypothetical case of John Wilson. John spent 30 years building an automotive tire sales giant, Wilson's World of Wheels, Inc. Due to the rigors of keeping his company ahead of the competition, John had little time for any *personal* financial and estate planning. Then, John died unexpectedly in a skiing accident. Suddenly, Wilson's World of Wheels, a multi-million dollar business, was facing an uncertain future due to the loss of its owner and most key executive.

What would happen to your business and your family should *you* become disabled or die unexpectedly? Do you have key employees or family members who could step in and run the company in your absence?

Planning Basics

It is essential to the future of your business and your family to have a succession plan in place. In order for your business to maintain continuity, you need to implement a succession plan that coincides with your goals and objectives. Your plan should be flexible enough to handle changes within the company and its related industry(ies). In addition, one of the keys to a succession plan is determining whom will be your successor(s).

Deciding on, and preparing a successor may require years to familiarize him or her with the finer points of your business. Thus, it is important to select a replacement as soon as possible in order to maximize the possibility of a successful transition. In smaller businesses, it is not uncommon for one or more family members to be at the top of the list of potential successors.

If you wish to pass your business on to future generations, you will need to make an honest assessment of the respective needs of your family and business, the qualifications of any interested family members, and whether the family and your business would be best served by a continued relationship. Communication with family members is extremely important in order to better ascertain overall interest or concerns.

Ultimately, it will be necessary to meet with your legal, tax, and insurance professionals to solidify your plan. Meanwhile, you can prepare yourself by honestly evaluating and reflecting on the necessary components of a well-thought-out succession plan. Here are a few points that may require further elaboration:

- A thorough job description of each position, including details regarding areas of responsibility and delegation of duties.
- A management/organization plan.
- An estate plan assuring the availability of cash to help meet the demands of federal and state estate taxes.
- A list of potential successors to your ownership, taking every candidate's job experience and academic background into consideration.
- A mechanism to ensure extensive on-the-job training for the successor(s).

Other Considerations

A succession plan may also include a buy-sell agreement funded by life insurance. More than likely, your successor may not have the cash, or the ability, to borrow at the time of successorship. Under such an agreement, the death benefit proceeds of the life insurance can be used to provide the cash necessary for a successor to purchase an owner's share of stock in the event of his or her untimely death.

In addition, it may be prudent to explore how your unexpected disability could affect not only your plans for successorship, but also your financial well being. Under a disability buyout arrangement, a disability buyout policy provides a successor with cash to purchase shares in the event of the owner's untimely disability.

You should consult with your insurance, legal, and tax professionals to devise a plan of action that provides security for your business and your family. It is equally important to *periodically review* your succession plan to assure it remains consistent with changing circumstances. With proper planning, your objectives for business succession and securing your family's future can be met.

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