HOW TO protect YOUR LIFE'S work

with kirk swartzbaugh

MANY of us unfortunately spend more time at our work than we do at home with our families. If you are a business owner, this likely applies double for you. That being said, it is surprising how many owners do not have a formal succession plan in place to ensure that the inheritors of their business will benefit from their blood, sweat, and tears.

The first step in succession planning is determining who can help step up and take charge when and if key players/owners need to be replaced. In many cases, this is quite clear. Sometimes it is cloudier because of certain skill sets that the existing leadership has. Thus, I'm seeing more and more cases where a committee/team is required to replace an experienced individual.

The second step is to create a Buy/Sell Agreement. This agreement will lay out the provisions of the sale of the business including naming the sellers, buyers, how the price of the company will be determined, etc. The best way to execute this is to have open dialogue between your attorney, accountant and life insurance practitioner to make sure the entire plan is co-ordinated properly.

The final step is to figure out how to fund the Buy/Sell Agreement. If all of the prospective owners have plenty of assets/ cash to write a check for the value of the company, then your succession planning is complete. Since that is not the case in a majority of the businesses in America, most of us need to get a little more creative.

Most Buy/Sell Agreements include provisions where the company is purchased over a certain number of years after the retirement, death, and/or disability of the existing owners. Thus, if the company is profitable enough, additional liquidity may or may not be required to facilitate the purchase via the company's existing cash flow.

Since many companies don't produce enough consistent profit (especially after the loss of a key owner) to facilitate the cash flow to fulfill the Buy/Sell Agreement, additional liquidity/cash will likely be needed. If there isn't enough consistent profit to rely upon to fund the Buy/Sell directly from the business, what do you think the odds are that a bank will help by extending a line of credit?

If I told you that there were products that could provide you with the liquidity that you expect to need when you need it, would you want to hear more about it? Here's where 'life insurance' comes into play.

In the event of the untimely death of an owner, a life insurance policy could provide the instant liquidity that is required to keep a business going. I'd also like to point out that the proceeds of a life insurance policy are not taxable income to the beneficiary. If you have three or less future owners, they will likely own the policies themselves. If you have more than three owners, the company will likely own the policies.

Fortunately and unfortunately, these plans can become dated. In fact, I have a client whose company has doubled in value since 2010. Thus, the policies that we placed to help fund their Stock Redemption Plan will only get them half way there. In order to prevent this from happening to your business, a business' succession planning and funding should be reviewed at least every 3-4 years, if not sooner for high growth companies.

Considering the time that we've devoted to building our businesses, we need to make sure we devote a little more to ensure our successors will be rewarded for our efforts and so the company can carry on well into the future.

For more information, please contact your trusted advisor at Swartzbaugh-Farber – 'Client Centered – Client Advocates™'.

This material is intended for informational purposes only and should not be construed as legal or tax advice and is not intended to replace the advice of a qualified attorney, tax advisor or plan provider.

Securities and Investment Advisory Services offered through M Holdings Securities, Inc., a Registered Broker/Dealer and Investment Advisor, member FINRA/SIPC. Swartzbaugh-Farber & Associates, Inc. is independently owned and operated.